Fifth edition

MANAGEMENT

the essentials

Robbins • Coulter • DeCenzo • Woods

Fifth edition

MANAGEMENT

the essentials

Robbins • Coulter • DeCenzo • Woods

Management

The Essentials

Fifth edition

To my family: Laura, Dana, Jennifer,

Jim, Mallory, Judi, David and Lad

Steve

To healing and restoration and faithfulness . . .

And to my Thursday night girls . . . you know who you are! IGGATG

Mary

To my wife of 35 years, for her love and encouragement. To my children, Mark, Meredith, Gabriella and Natalie, who have given me so much through the years. And now my two precious prides and joy – my grandsons, William Mason Evans and Lucas Daniel Daley. How you two have changed my life!

Dave

To all the people who inspire me, and most particularly to Bianca Humphrey, whose many forms of support were, quite literally, what made it possible to write this book.

Megan

Management

The essentials

Fifth edition

Robbins
Coulter
DeCenzo
Woods

Copyright © Pearson Australia (a division of Pearson Australia Group Pty Ltd) 2022

Pearson Australia

707 Collins Street

Melbourne VIC 3008

www.pearson.com.au

Authorised adaptation from the United States edition, entitled FUNDAMENTALS OF MANAGEMENT [RENTAL EDITION], 11th Edition by ROBBINS, STEPHEN; COULTER, MARY; DE CENZO, DAVID A., published by Pearson Education, Inc, Copyright © 2020.

Fifth adaptation edition published by Pearson Australia Group Pty Ltd, Copyright © 2022.

The *Copyright Act 1968* of Australia allows a maximum of one chapter or 10% of this book, whichever is the greater, to be copied by any educational institution for its educational purposes provided that that educational institution (or the body that administers it) has given a remuneration notice to Copyright Agency Limited (CAL) under the Act. For details of the CAL licence for educational institutions, contact: Copyright Agency Limited, telephone: (02) 9394 7600, email: **info@copyright.com.au**

All rights reserved. Except under the conditions described in the *Copyright Act 1968* of Australia and subsequent amendments, no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

This text was in production during the COVID-19 pandemic. Content which relates to COVID-19 and its broader impacts was correct at the time of printing.

Senior Portfolio Manager: Nina Sharpe

Content Specialist: Anna Carter

Senior Project Manager: Bronwyn Smith

Editorial and Design Production Manager: Bernadette Chang

Senior Rights and Permissions Editor: Lisa Woodland

Product Manager: Stephen Razos

Digital Production Manager: Paul Ryan

Lead Editor/Copy Editor: Robyn Flemming

Proofreader: Integra Software Services

Indexer: Integra Software Services

Cover and internal design by Lamond Art and Design

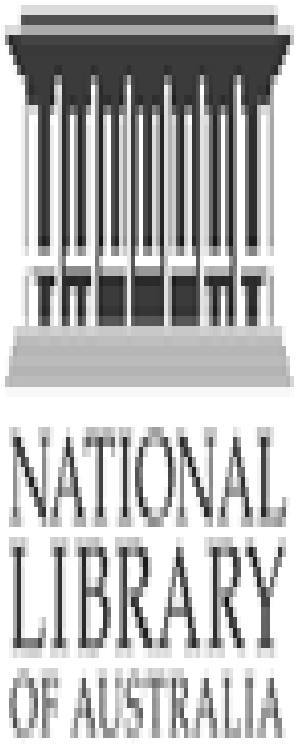
Cover illustration by etraveler/Shutterstock

Typeset by Integra Software Services

Printed in Malaysia

ISBN 9780655702443

1 2 3 4 5 26 25 24 23 22



A catalogue record for this book is available from the National Library of Australia

Pearson Australia Group Pty Ltd ABN 40 004 245 943

Brief contents

Detailed contents vi

Preface xiv

Becoming more employable xvii

Guided tour xviii

Content matrix: Chapters and cases xx

About the authors xxiii

Reviewers xxv

Acknowledgements xxvi

Educator resources xxvii

Chapter 1 Managers and management 2

Chapter 2 How organisations operate 22

Chapter 3 The external organisational environment 48

Chapter 4 Managing social responsibility and ethical behaviour 68

Chapter 5 Making decisions 88

Chapter 6 Planning 116

Chapter 7 Organisational structure and design 144

Chapter 8 Managing work groups and teams 178

Chapter 9 Managing human resources 204

Chapter 10 Managing change and innovation 236

Chapter 11 Understanding individual behaviour 264

Chapter 12 Motivating and rewarding employees 298

Chapter 13 Leadership and trust 326

Chapter 14 Managing organisational and interpersonal communication 356

Chapter 15 Controlling work and organisational processes 380

Chapter 16 Managing entrepreneurial ventures 404

Appendix: A brief history of management's roots 423

Glossary 430

Index 440

Detailed contents

Preface xiv

Becoming more employable xvii

Guided tour xviii

Content matrix: Chapters and cases xx

About the authors xxiii

Reviewers xxv

Acknowledgements xxvi

Educator resources xxvii

Chapter 1 Managers and management 2

Who are managers, and where do they work? 4

What four characteristics do all organisations share? 4

How are managers different from non-managerial employees? 5

What titles do managers have? 5

Classic concepts in today's organisations: Management: Is there one best way to do a job? 6

What is management? 6

What do managers do? 7

What are the four management functions? 7

What are management roles? 9

What characteristics do managers need? 10

Is the manager's job universal? 11

A question of ethics: Being set up to fail? 13

What factors are reshaping and redefining management? 13

Why are customers important to the manager's job? 13

Why is innovation important to the manager's job? 13

Why are diversity and inclusion important to the manager's job? 14

Why are social media tools important to the manager's job? 14

Why is sustainability important to the manager's job? 14

Why is the COVID-19 pandemic important to the manager's job? 15

Why study management? 15

Review

Chapter 1 summary 16

Discussion questions 16

Management skills spotlight: Becoming politically adept 17

Experiential exercise 17

Case application: Learning to 'walk the walk' 18

Running case: Holiday Home Helpers: Motivated to make a difference 19

Endnotes 20

Chapter 2 How organisations operate 22

What is operations management? 24

Why is operations management important? 24

How does operations management enhance productivity? 25

How does operations management contribute to an organisation's strategy? 25

Classic concepts in today's organisations: Increasing productivity by enhancing quality 26

What is the value chain? 27

What is value chain management? 28

What are the goals of value chain management? 28

Rethinking management in a global crisis: New 'rules of the game' change the value of chains 29

What are the requirements for successful value chain management? 29

What are the obstacles to value chain management? 32

What contemporary issues do organisations face in operations management? 33

The role of technology in operations management 33

Managing quality in the value chain 34

Using lean management 36

Managing for sustainability: Managing the value chain from cradle to grave 37

What is organisational culture, and why is it important? 37

A question of ethics: Values and value 39

How does organisational culture affect managers? 39
Managing for diversity and inclusion: The paradox of diversity 40

Review

Chapter 2 summary 41

Discussion questions 42

Management skills spotlight: Understanding culture 42

Experiential exercise 42

Case application: Fast fashion 44

Running case: Holiday Home Helpers: Taking the hassle out of hosting 45

Endnotes 46

Chapter 3 The external organisational environment 48
What is the external environment of an organisation? 50
What is the general environment of an organisation? 50

Managing for diversity and inclusion: Does your organisation need a diversity climate change? 53

What is the specific environment of an organisation? 56

Managing for sustainability: Connecting up to do more with less 58

How does the external environment affect managers? 58
A question of ethics: Opportunity, or opportunism? 59
Classic concepts in today's organisations: How much can managers really affect outcomes? 60
Review
Chapter 3 summary 61
Discussion questions 61
Management skills spotlight: Scanning the external environment 62
Experiential exercise 62
Case application: Electric vehicles 63
Running case: Holiday Home Helpers: Change on the horizon 64
Endnotes 65
Chapter 4 Managing social responsibility and ethical behaviour 68
How do organisations define their social responsibilities? 70
Should organisations be socially responsible? 71
Managing for diversity and inclusion: How support for diversity and inclusion pays off 72

Managing for sustainability: Using dirty deeds to look clean and green 72

How can managers identify the ethical thing to do? 73

Ethical perspectives 73

What factors influence ethical and unethical behaviour? 74

Classic concepts in today's organisations: Moral behaviour stems from moral identity 76

A question of ethics: Fuelling feelings 76

Rethinking management in a global crisis: Moral behaviour stems from moral identity 77

How can managers encourage ethical behaviour? 78

Review

Chapter 4 summary 81

Discussion questions 82

Management skills spotlight: Doing the right thing 82

Experiential exercise 82

Case application: Banking on getting away with it 83

Running case: Holiday Home Helpers: Keeping it confidential 84

Endnotes 85

Chapter 5 Making decisions 88
How do managers make decisions? 90
What defines a decision problem? 90
What is relevant in the decision-making process? 91
How does the decision maker weight the criteria and analyse alternatives? 91
What determines the best choice? 93
What happens in decision implementation? 93
What is the last step in the decision process? 93
What common errors are committed in the decision-making process? 93
Managing for sustainability: Deciding how to ‘go green’ 93
What are the three approaches managers can use to make decisions? 95
What is the rational model of decision making? 95
A question of ethics: Building believability with the Beauty Mark 96
What is bounded rationality? 96
Classic concepts in today’s organisations: When faced with too many choices, we satisfice! 97

What role does intuition play in managerial decision making? 97

What types of decisions and decision-making conditions do managers face? 98

How do problems differ? 98

How does a manager make programmed decisions? 98

How do non-programmed decisions differ from programmed decisions? 99

How are problems, types of decisions and organisational level integrated? 99

What decision-making conditions do managers face? 100

Rethinking management in a global crisis: Making decisions when uncertainty is the *only* certainty 101

How do groups make decisions? 101

What are the advantages and disadvantages of group decision making? 101

Managing for diversity and inclusion: The value of diversity in decision making 102

When are groups most effective? 103

How can you improve group decision making? 103

What contemporary decision-making issues do managers face? 105
How does national culture affect managers' decision making? 105
Why are creativity and design thinking important in decision making? 106
Review
Chapter 5 summary 108
Discussion questions 108
Management skills spotlight: Being a creative decision maker 109
Experiential exercise 109
Case application: Going greener 110
Running case: Holiday Home Helpers: Developing a decision-making style 111
Endnotes 112
Chapter 6 Planning 116
What is planning, and why do managers need to plan? 118
Why should managers formally plan? 118
What are some criticisms of formal planning, and how should managers respond? 119

Managing for sustainability: Planning for a more sustainable future 120

Does formal planning improve organisational performance? 120

What do managers need to know about strategic management? 121

What is strategic management? 121

What are the steps in the strategic management process? 122

What strategic weapons do managers have? 125

How do managers set goals and develop plans? 126

What types of goals do organisations have, and how do they set those goals? 126

Classic concepts in today's organisations: All you need to know about MBO! 128

What types of plans do managers use, and how do they develop those plans? 129

Managing for diversity and inclusion: Carrot or stick? 132

What are some popular planning tools? 132

What contemporary planning issues do managers face? 135

How can managers plan effectively in dynamic environments and for crisis situations? 135

How can managers use environmental scanning? 136

Rethinking management in a global crisis: Planning in a pandemic 136

How can managers use benchmarking? 137

A question of ethics: Is there enough time to act ethically? 137

Review

Chapter 6 summary 138

Discussion questions 138

Management skills spotlight: Being a good goal setter 139

Experiential exercise 139

Case application: Less is more 140

Running case: Holiday Home Helpers: Planning for success 141

Endnotes 142

Chapter 7 Organisational structure and design 144

What are the six key elements in organisational design? 146

What is work specialisation? 146

What is departmentalisation? 147

What are authority and responsibility? 149

What is span of control? 153

How do centralisation and decentralisation differ? 154

A question of ethics: Deciding what, and when, to disclose 154

What is formalisation? 155

How is a mechanistic organisation different from an organic organisation? 155

What contingency factors affect structural choice? 156

How does strategy affect structure? 156

How does size affect structure? 157

How does culture influence structure? 157

How does technology affect structure? 157

Classic concepts in today's organisations: How does technology affect organisation design? 157

How does the environment affect structure? 158

What are some common organisational designs? 158

What traditional organisational designs can managers use? 158

Managing for sustainability: Structure and sustainability 159

What contemporary organisational designs can managers use? 161

Managing for diversity and inclusion: Sourcing diversity 163

What are today's organisational design challenges? 164

How do you keep employees connected? 164

How do you delegate effectively? 164

How do global differences affect organisational structure? 166

How do you build a learning organisation? 166

How can managers design efficient and effective flexible work arrangements? 168

Rethinking management in a global crisis: How working from home *really* works 169

Review

Chapter 7 summary 171

Discussion questions 171

Management skills spotlight: Increasing your power 172

Experiential exercise 172

Case application: Structural renewal at the Australian Red Cross 173

Running case: Holiday Home Helpers: Designed for success? 174

Endnotes 175

Chapter 8 Managing work groups and teams 178

What is a group, and what stages of development do groups go through? 180

What is a group? 180

What are the stages of group development? 180

What are the main concepts of group behaviour? 181

What are roles? 182

How do norms and conformity affect group behaviour? 182

What is status, and why is it important? 182

Classic concepts in today's organisations: Have you ever been pressured by a group to conform? 183

Does group size affect group behaviour? 184

Are cohesive groups more effective? 184

Managing for sustainability: Green Teams 185

How are groups turned into effective teams? 185

Are work groups and work teams the same thing? 185

Rethinking management in a global crisis: Teaming up as a leadership group 186

What are the different types of work teams? 186

What makes a team effective? 187

Managing for diversity and inclusion: The challenge of managing diverse work teams 189

A question of ethics: Working out where loyalties lie 191

How can a manager shape team behaviour? 191

What current issues do managers face in managing teams? 192

What's involved with managing global teams? 193

When are teams not the answer? 194

Review

Chapter 8 summary 195

Discussion questions 195

Management skills spotlight: Developing your coaching skills 196

Experiential exercise 196

Case application: Intel inside … and far away 197

Running case: Holiday Home Helpers: Team up? Or go it alone? 198

Endnotes 199

Chapter 9 Managing human resources 204

What is the human resource management process, and what influences it? 206

What is the legal environment of HRM? 207

Rethinking management in a global crisis: Legislating pandemic conditions 209

How do managers identify and select competent employees? 209

What is employment planning? 209

Classic concepts in today's organisations: Scientifically studying the workplace 211

How do managers reduce their workforce? 211

How do organisations recruit employees? 212

How do managers select job applicants? 213

How are employees provided with needed skills and knowledge? 216

How are new employees introduced to the organisation? 217

What is employee training? 217

How do organisations provide a safe working environment? 220

A question of ethics: Being responsible 220

How do organisations retain competent, high-performing employees? 221

What is a performance management system? 221

What happens if an employee’s performance isn’t up to par? 222

How are employees compensated? 223

Managing for sustainability: Green HRM 224

What contemporary HRM issues do managers face? 224

How can managers manage downsizing? 224

How can workforce diversity be managed? 226

Managing for diversity and inclusion: Mentoring 226

What is sexual harassment? 227

What is career development? 228

Review

Chapter 9 summary 229

Discussion questions 230

Management skills spotlight: Providing good feedback 230

Experiential exercise 230

Case application: Facilitating change or forcing conformity? 231

Running case: Holiday Home Helpers: Strategically using HRM for success 232

Endnotes 233

Chapter 10 Managing change and innovation 236

What is change, and how do managers deal with it? 238

Why do organisations need to change? 239

Who initiates organisational change? 240

How does organisational change happen? 240

Classic concepts in today's organisations: Lewin's ideas have helped us better understand organisational change 241

Reasons why change fails 243

What are some techniques for overcoming barriers to organisational change? 244

What reaction do employees have to organisational change? 245

What is stress? 245

What are the symptoms of stress? 246

What causes stress? 246

How can stress be reduced? 247

A question of ethics: Suffering in silence 248

How can managers encourage innovation in an organisation? 249

How are creativity and innovation related? 249

How can organisations stimulate creativity? 249

Managing for sustainability: Self-sustaining agriculture 250

What's involved in turning creativity into innovation? 250

How can a manager foster innovation? 251

Managing for diversity and inclusion: Listening to everyone 252

How does design thinking influence innovation? 253

Rethinking management in a global crisis: New challenges, new insights, new capabilities 254

Review

Chapter 10 summary 255

Discussion questions 256

Management skills spotlight: Stress management 256

Experiential exercise 257

Case application: Saving mates 258

Running case: Holiday Home Helpers: Learning how to learn more effectively 259

Endnotes 260

Chapter 11 Understanding individual behaviour 264

What are the focus and goals of organisational behaviour? 266

What is the focus of organisational behaviour? 266

What are the goals of organisational behaviour? 266

What role do attitudes play in job performance? 267

What are the three components of an attitude? 267

What attitudes might employees hold? 267

Do individuals' attitudes and behaviours need to be consistent? 268

What is cognitive dissonance theory? 268

How can an understanding of attitudes help managers be more effective? 270

Managing for sustainability: Translating good intentions into action 270

What do managers need to know about personality? 271

How can we best describe personality? 271

Can personality traits predict practical work-related behaviours? 273

A question of ethics: Faking feelings 273

How do we match personalities and jobs? 275

Do personality attributes differ across cultures? 276

How can an understanding of personality help managers be more effective? 276

What is perception, and what factors influence it? 277

What influences perception? 277

How do managers judge employees? 278

How can an understanding of perception help managers be more effective? 280

Managing for diversity and inclusion: Being a more inclusive person 281

How do learning theories explain behaviour? 281

What is operant conditioning? 281

What is social learning theory? 281

Classic concepts in today's organisations: Want to know how to shape someone's behaviour? 282

How can managers shape behaviour? 282

How can an understanding of learning help managers be more effective? 283

What contemporary OB issues do managers face? 283

How do generational differences affect the workplace? 283

Rethinking management in a global crisis: Getting to know you … 285

How do ability, disability and mental health affect the workplace? 285

How do managers deal with bullying in the workplace? 286

Review

Chapter 11 summary 288

Discussion questions 289

Management skills spotlight: Understanding employee emotions 289

Experiential exercise 289

Case application: A fighting chance at a fair go 291

Running case: Holiday Home Helpers: Hire for personality or performance? 292

Endnotes 293

Chapter 12 Motivating and rewarding employees 298

What is motivation? 300

What do the early theories of motivation say? 300

What is Maslow's hierarchy of needs theory? 301

What is McClelland's three-needs theory? 302

What are McGregor's Theory X and Theory Y? 302

What is Herzberg's two-factor theory? 302

Classic concepts in today's organisations: How can jobs be designed to make workers happy? 304

How do the contemporary theories explain motivation? 304

What is goal-setting theory? 304

Managing for sustainability: Inspiring more sustainable actions 306

How does job design influence motivation? 306

What is equity theory? 307

How does expectancy theory explain motivation? 309

How can we integrate contemporary motivation theories? 309

What contemporary motivation issues do managers face? 311

- How can managers motivate employees during difficult economic times? 311
- Rethinking management in a global crisis: Effort–reward imbalance 311
- How does country culture affect motivation efforts? 312
- How can managers motivate unique groups of workers? 312
- Managing for diversity and inclusion: Equal rewards for equal work? 313
- How can managers design appropriate rewards programs? 315
- A question of ethics: Promises and paybacks 315

Review

Chapter 12 summary 317

Discussion questions 318

Management skills spotlight: Being a good motivator 318

Experiential exercise 318

Case application: One for the money . . . 320

Running case: Holiday Home Helpers: Recognising that rewards take many forms 321

Endnotes 322

Chapter 13 Leadership and trust 326

Who are leaders, and what is leadership? 328

What do early leadership theories tell us about leadership? 328

What traits do leaders have? 328

What behaviours do leaders exhibit? 329

Classic concepts in today's organisations: People–task: Both are important to leaders 331

What do the contingency theories of leadership tell us? 332

What was the first comprehensive contingency model? 332

How do followers' willingness and ability influence leaders? 333

How participative should a leader be? 334

How do leaders help followers? 335

What is leadership like today? 337

What do the four contemporary views of leadership tell us? 337

Managing for sustainability: Leading sustainability 339

What issues do today's leaders face? 341

Why is trust the essence of leadership? 343

A question of ethics: Follow the money 344

Managing for diversity and inclusion: Inclusive leadership 344

A final thought regarding leadership 345

Review

Chapter 13 summary 346

Discussion questions 347

Management skills spotlight: Being a good leader 347

Experiential exercise 347

Case application: Jacinda Ardern: Leading with flying colours 348

Running case: Holiday Home Helpers: Leadership and trust 349

Endnotes 350

Chapter 14 Managing organisational and interpersonal communication 356

How do managers communicate effectively? 358

How does the communication process work? 358

Are written communications more effective than verbal ones? 360

Is the grapevine an effective way to communicate? 361

How do non-verbal cues affect communication? 361

Classic concepts in today's organisations: The grapevine: An important source of information 361

What barriers keep communication from being effective, and how can they be overcome? 362

Managing for diversity and inclusion: Using inclusive language 364

How can managers overcome communication barriers? 365

Managing for sustainability: Talking up sustainability 366

How is technology affecting managerial communication? 366

Rethinking management in a global crisis: Meeting online … all the time! 367

What communication issues do managers face today? 367

How do we manage communication in a networked world? 367

How does knowledge management affect communication? 368

A question of ethics: Who says? 368

What role does communication play in customer service? 369

How can we get employee input? 370

How should managers communicate when negotiating? 370

Why should managers be concerned with communicating ethically? 371

Review

Chapter 14 summary 373

Discussion questions 373

Management skills spotlight: Being a good listener 374

Experiential exercise 374

Case application: Better flow leads to better care 375

Running case: Holiday Home Helpers: Communicating by the board 376

Endnotes 377

Chapter 15 Controlling work and organisational processes 380

What is control, and why is it important? 382

Why is control important? 382

What takes place as managers control? 383

What is ‘measuring’? 383

Managing for diversity and inclusion: Using controls to increase diversity 386

How do managers compare actual performance to planned goals? 386

What managerial action can be taken? 387

What should managers control? 388

When does control take place? 388

In what areas might managers need controls? 389

Managing for sustainability: The triple bottom line of sustainability 392

What contemporary control issues do managers confront? 392

Using feedback to control employee performance 392

Do controls need to be adjusted for cultural differences? 393

What challenges do managers face in controlling the workplace? 394

A question of ethics: Workplace surveillance 394

Controlling workplace conflict 395

Review

Chapter 15 summary 398

Discussion questions 398

Management skills spotlight: Disciplining difficult employees 399

Experiential exercise 399

Case application: In the can 400

Running case: Holiday Home Helpers: Controlling in consultation with employees 401

Endnotes 402

Chapter 16 Managing entrepreneurial ventures 404

What is entrepreneurship? 406

Who engages in entrepreneurship? 406

Is entrepreneurship different from self-employment? 408

What planning do entrepreneurs need to do? 408

Classic concepts in today's organisations: Sources of entrepreneurial opportunities 409

Managing for sustainability: Sustaining people and communities 409

What's in a full business plan? 410

What's involved in organising an entrepreneurial venture? 411

What are the legal forms of organisation for entrepreneurial ventures? 411

What type of organisational structure should entrepreneurial ventures use? 411

What human resource management (HRM) issues do entrepreneurs face? 412

A question of ethics: Being real about success 412

What's involved in leading an entrepreneurial venture? 413

How can entrepreneurs motivate employees? 413

Managing for diversity and inclusion: Using diversity to support diversity 414

How can entrepreneurs be leaders? 414

What's involved in controlling entrepreneurial ventures? 414

How is growth managed? 415

How are downturns managed? 415

What's involved with exiting the venture? 415

Why is it important to think about managing personal challenges as an entrepreneur? 415

Review

Chapter 16 summary 417

Discussion questions 417

Management skills spotlight: Developing grit 418

Experiential exercise 418

Case application: Creatively making a better world 419

Running case: Holiday Home Helpers: A new (ad)venture 420

Endnotes 421

Appendix: A brief history of management's roots 423

Early management (3000 BCE–mid-1800s) 423

Behavioural approach (late 1700s–1950s) 424

Classical approaches (1911–1947) 425

Quantitative approach (1940s–1950s) 426

Contemporary approaches (1960s–present) 427

Choosing between management approaches 428

Endnotes 429

Glossary 430

Index 440

Preface

A short note to students

What this book is about and why it's important

This text is about management and managers. Whatever you do in your career, you will either manage someone else or be managed yourself. So, the more you understand about what management involves and how it works, the better chance you'll have of finding good managers to work with and of being a good manager yourself. Put simply: learning about management will help you to be more successful.

There's no doubt that the world managers face today has changed, is changing and will continue to change. This means that you'll keep learning more about management throughout your career. So, our focus with this text has been to give you the best possible foundation for developing your knowledge of management, and for understanding how to apply the ideas you come across to handle the challenges that managers face.

Using this text to learn effectively

Lecturers use textbooks because they provide students with a compact source of information about the subject material. This particular textbook covers the essential concepts of management in a writing style that you will find interesting and straightforward. To help you learn as effectively as possible, we've adopted four key principles for this text:

1. We introduce you to the essential management principles, theories and practices.
2. We illustrate how understanding management will be relevant and valuable to you.
3. We make this textbook interesting and engaging, so that it's easier for you to learn from.
4. We help you to develop your own managerial style and skills.

In addition to the discussions and explanations of these management concepts, we provide several ways to help you learn effectively and do well in your course. At the end of each chapter, you'll find a summary that provides you with a brief overview of the chapter material organised by the chapter learning outcomes. In addition to this review, you'll find options for applying what you've learnt (discussion questions and an experiential exercise) – reinforcing the concepts and seeing how they're relevant to you right now. Read through the case application that you'll find at the end of the chapter. These stories come from current or recent business news and help to illustrate the challenges managers face. Your lecturer may even assign some of these as homework.

A short note to instructors

The approach we've taken to help your students learn

This text has been designed to help students understand management concepts, recognise those concepts when they encounter them in everyday life, and apply what they have learnt to develop new insights, understanding and solutions. To help students learn as effectively as possible, we've adopted three key principles for this text. We want to show students how the material is relevant and valuable to them. We want students to be able to use what they learn to make sense of the organisations they experience and the managers they work with. Finally, and most importantly, we want to help students apply the approaches they learn about to become the kind of manager they want to be.

Show students how understanding management will be relevant and valuable to them

Adult learning theory tells us that students will engage with material, and therefore learn more effectively, when they understand why the material is relevant and how it is useful to them. So, in this text we've developed a number of features to show students how understanding management will be relevant and valuable to them. Chapter introductions spell out the benefits for students of understanding the chapter. A diverse range of examples from business, not-for-profit organisations and public sector agencies illustrates that students will benefit from understanding effective management, whatever career directions they take. To reinforce and enhance the value of learning about management, we've also included a number of chapter features to help students develop their own managerial style and skills. We

hope these features will help students understand how to use what they are learning to become better managers in the future.

Make this textbook accessible and engaging, so that it's easier for students to learn from

When we researched what students valued in a management textbook, they told us they valued features that made the text accessible and engaging. So, we've used simple and straightforward language to help students easily understand the material and feel more confident about studying management. As students vary so widely in their levels of English literacy, using accessible language means they can spend less time deciphering the terminology and more time learning the theory. We haven't 'dumbed down' the material; we've just explained it simply and clearly. We've included models, tables, figures and images to create visual interest and vary the presentation of material. We've emphasised organisations and situations that students can identify with, from working in a cafe to dealing with workplace bullying. We've used thought-provoking issues such as inclusion of diversity, supporting mental health in the workplace, and the growth of the sharing economy to encourage students to think critically about practices they may take for granted.

Provide concise coverage of essential management principles, theories and practices

When we asked students how textbooks supported their learning, they told us they used their text as the 'gospel' version of what they needed to know. So, we've provided concise – yet detailed – explanations of management theory and practice that can either stand

alone or provide a foundation on which you can build. We've outlined the historical development of management concepts so that students understand how ideas about management have developed over time. The appendix includes a visual timeline of the history of management.

The Classic concepts in today's organisations feature showcases key contributors to the development of management theory. We've focused our presentation of cases and examples on showing students how management concepts are applied in practice. We've emphasised contextual influences to help students understand when and how managers adapt their approaches. We've also included a number of chapter features that highlight aspects of contemporary management. The Managing for Diversity and Inclusion feature focuses on diversity issues in organisations and reinforces to students that diversity influences every aspect of a manager's job. The Question of Ethics feature illustrates to students that ethical judgment is required to practise every aspect of management. The Managing for Sustainability feature highlights sustainability issues related to the economic, social and environmental impacts of organisational activities to help students understand the complexities and tradeoffs involved in managing sustainability in an organisational setting.

What's new in the fifth edition?

As course instructors, we know how important it is to keep material updated, relevant and fresh. In this edition, we've added some exciting new chapters and chapter features to make the text even

more useful to your teaching and even more engaging for your students.

- The new chapter titled ‘How Organisations Operate’ explains to students how an organisation’s operating system determines *what* the organisation does to create the goods and services it produces, and how its culture helps to determine *how* it operates by defining its goals and how they should be achieved.
- The new chapters titled ‘Managing Social Responsibility and Ethical Behaviour’ and ‘Managing Entrepreneurial Ventures’ extend the content and learning activities that the Ethics and Social Responsibility and Entrepreneurship modules provided in previous editions. The content of both chapters has been updated to include more contemporary research and examples. Learning activities have also been expanded to include chapter learning outcomes, chapter features, and a full suite of end-of-chapter materials, including a chapter summary, discussion questions, management skills spotlight, experiential exercise and case applications.
- The new chapter feature titled ‘Rethinking Management in a Global Crisis’ showcases particular ways in which the COVID-19 global pandemic has inspired ways of thinking about and practising management. In it, we examine some of the many and varied ways that dealing with the pandemic has caused individuals, organisations and even governments to try new approaches and develop new insights about what works and what doesn’t.

- The new Experiential Exercise learning feature at the end of each chapter details an applied and reflective learning activity in which students develop direct personal experience of a concept or practice detailed in the chapter. The activity includes task instructions and reflective questions designed specifically to help students explore and articulate the new insights the experience has given them about this aspect of management, and how they can apply those insights in future situations.
- The new Holiday Home Helpers case application showcases a fictional business that provides cleaning and property management services for holiday accommodation properties such as Airbnbs. It is written as a running case study with 16 chapter-specific instalments and discussion questions linked to the chapter learning outcomes. This means you can use them for teaching and/or assessment, and either as stand-alone chapter-specific case studies or to highlight for students how different aspects of management interrelate and synergise.

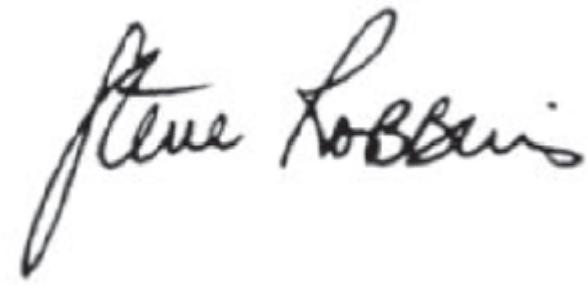
We also know it can be challenging to get students engaged with and interested in the content they are learning when they come from a wide range of backgrounds and life experiences, and may not yet know how they want to use what they are learning to take them forward into their future careers. To help you make your course inclusive, relevant and engaging for all your students, this fifth edition covers all the core topics in sufficient breadth to support the focus of your course, as well as including ‘hot’ topics and new issues facing managers today. We’ve drawn on examples from a wide range of organisational settings and management roles so that your students

have the best chance of seeing themselves and their possible future when they engage with the text. This includes:

- contemporary topics such as workplace mental health, wellbeing and suicide prevention; inclusive leadership, language and support for workplace diversity; the gig economy; design thinking; and expanded coverage of sustainability
- diverse organisational settings, from large multinational profit-oriented corporations, to small boutique local cafés, charities, social enterprises, sports clubs, hospitals and manufacturers
- people in managerial roles representing a wide range of ages, genders, cultural backgrounds, ethnicities, social and business goals, experience bases and managerial levels.

Within each chapter, we've replaced or updated many of the cases, features and activities, which are useful for a wide range of teaching applications. These changes include the addition of two case applications focused specifically on Indigenous individuals, businesses and cultural sensitivities. We've also highlighted for students how these chapter features and learning activities help them to become more employable by developing their skills in critical thinking, knowledge application and analysis, communication, collaboration and social responsibility.

Good luck this semester, and we hope you enjoy reading this text as much as we enjoyed writing it for you.



Becoming more employable

By studying this text, you'll develop knowledge and skills that will increase your chances of getting the jobs you want, succeeding in those roles, and developing a flourishing and rewarding career path. As you complete the learning activities, you'll learn and practise many skills that enhance your employability, but we've focused on five in particular: critical thinking, knowledge application and analysis, communication, collaboration, and social responsibility.

Critical thinking is the use of purposeful and goal-directed thinking used to define and solve problems, form judgments and make decisions in a particular situation or set of circumstances. Developing your critical thinking skills enhances your ability to critically analyse information you receive to identify biases, understand the significance of important details and prioritise them, define cause-and-effect relationships, and draw evidence-based conclusions.

Knowledge application and analysis is the ability to learn a concept and then apply that knowledge appropriately in another setting to achieve a higher level of understanding. When you can do this effectively, it helps you recall material you have previously learnt, describe it in your own words, determine whether and how it can be usefully applied to help you in a given situation, and then use it to generate solutions.

Communicating effectively means being able to use oral, written and non-verbal communication skills for multiple purposes, including to inform, instruct, motivate, persuade and share ideas. Enhancing your communication skills will help you to adapt your communication approach in different contexts, use technology to enhance communication, and enhance your ability to listen and respond effectively when others communicate with you.

Collaboration is the ability to work constructively with others to create a final output reflective of joint, interdependent actions. It involves working with others to find solutions to problem situations by constructing meaning and knowledge, and by selecting, organising, and integrating information and ideas from a variety of sources and formats. Collaborating effectively in a group requires that you can work jointly and interdependently, discuss and negotiate while making sure all voices are heard, and be able to appropriately resolve conflict.

Being socially responsible involves identifying and using guiding principles of ethical conduct and social responsibility to influence the ways that individuals and organisations behave. You can develop your capacity to be socially responsible by learning how to apply ethical reasoning to real-world scenarios. This includes being able to identify potential ethical dilemmas and the stakeholders they affect, recognise important contextual factors influencing the situation, and identify and assess possible alternatives.

Each chapter in the text is loaded with opportunities for you to develop and apply these five key skills that you'll need in order to be successful in the organisations you work with. The employability skills matrix shows you how special features in each chapter of this book link to those skills. This means that as you complete them, you'll not only be developing your skills, but also developing an evidence base to show potential employers that you have them!

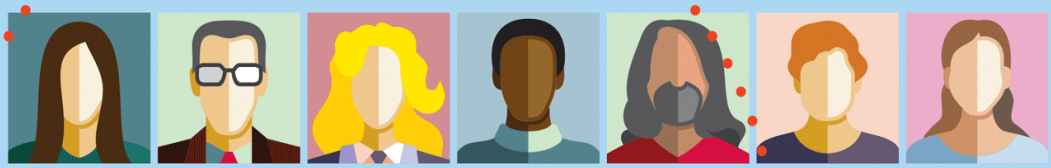
Good luck in this course!

Employability skills matrix

CHAPTER FEATURE	CRITICAL THINKING	KNOWLEDGE APPLICATION AND ANALYSIS	COMMUNICATION	COLLABORATION	SOCIAL RESPONSIBILITY
Classic concepts in today's organisations	✓	✓	✓	✓	
A question of ethics	✓	✓	✓	✓	✓
Managing for diversity and inclusion	✓	✓	✓	✓	✓
Rethinking management in a global crisis	✓	✓	✓		
Experiential exercise	✓	✓	✓		
Case applications	✓	✓	✓		

Guided tour

Learning outcomes These are listed at the beginning of each chapter and explain the key concepts that students should understand after studying the chapter. They are also revisited in the summary section.



impacting the way organisations are managed today. In this chapter, we examine the two components of the external environment: the general environment that affects all organisations and the specific environment of each individual organisation. We then consider how changing environments influence managers and organisations.

Learning outcomes

3.1 Explain what the external environment is and discuss why it is important.
3.2 Explain what factors make up an organisation's general environment.
3.3 Explain what factors make up an organisation's specific environment.
3.4 Discuss how the external environment affects managers.

Changing the world as we know it

To see just how powerful an effect the external environment can have on organisations, we need look no further than the COVID-19 pandemic.[3] The virus originated in Wuhan, China, in late December 2019, but within a month, nearly 8,000 cases had been confirmed in 18 countries. By mid-March it had been declared a pandemic; by mid-June it was a truly global phenomenon, affecting every country around the world. While people and countries are dealing with the same virus, its impact, the responses being deployed and the effects of both on people, organisations and governments vary greatly between different localities. Nevertheless, less than six months after the first case was diagnosed, COVID-19 and the measures taken to manage its impact have brought about changes in every single element of the general environment.

As a global phenomenon, COVID-19 has required a global response. Entities such as the World Health Organization (WHO) have been crucial actors in this because of their capacity to collect and disseminate information around the world about how the pandemic is unfolding at the national, regional and global level. The pandemic has also created an urgent and global need for new technologies for dealing with the disease. This includes medical technologies to test for and treat the virus, and safety technologies such as hand sanitiser, surface disinfectants and face masks. Social isolation measures, such as mandated work-from-home arrangements, have caused an explosion in the demand for and use of webcams and webconferencing technologies. For platforms like Zoom, the pandemic created unprecedented demand and business opportunities. In fact, between January and October 2020, the share price for Zoom increased from A$93 to A$715![4]

When the COVID-19 pandemic forced organisations across Australia to scale back or stop their operations, hundreds of thousands of people lost work. For Centrelink, the government agency responsible for welfare payments, this meant more work than ever. In the first six months of the pandemic, Centrelink oversaw the payment of unemployment benefits to more than 1.6 million people.[2]

Jenny Evans/Stringer/Getty Images

In countries that closed non-essential businesses to enable social isolation and limit contagion, the

Managing for sustainability Highlights sustainability issues related to the economic, social and environmental impacts of organisational activities to help students understand the complexities and tradeoffs involved in managing sustainability in an organisational setting.

MANAGING FOR SUSTAINABILITY

Planning for a more sustainable future

The benefits of formal planning are especially relevant to managing for sustainability:

- Formal planning processes help managers and employees to develop a shared understanding of the organisation's sustainability goals and priorities.
- By enabling coordinated effort, formal planning helps organisational members to work together to manage the impact of the organisation's activities.
- By improving the organisation's capacity to deal with change, formal planning helps organisational members to deal more effectively with issues that can affect sustainability outcomes.
- By reducing overlapping and wasteful activities, formal planning helps the organisation to use resources in a more sustainable manner.
- By establishing the goals and standards that facilitate control, formal planning helps organisations to continuously monitor and improve their handling of sustainability issues.

But there's one more benefit to formal planning for sustainability, and that is helping the organisation to be more competitive.[5] Many organisations are finding that customers are increasingly making decisions based on a supplier's sustainability efforts. As sustainability manager for Focus Press, a Sydney-based printing company, Louise Pastro witnessed this first hand. 'Sustainability has crept up the list of supplier requirements,' she recalled. 'People used to buy print based on price, quality, service and those sorts of things, but in the past few years we've seen a change ... over 90 per cent of tender request documents have some sort of question related to environmental impact.'

Other organisations, such as footwear manufacturer Okabashi, have found that planning around sustainability provides advantages over rival companies. Unlike other footwear manufacturers, Okabashi makes shoes using a soy-based material that can be reused. This means the materials from any shoes that don't meet quality standards can be repurposed to make new shoes, which actually last longer than ones made without recycled material. Minimising waste in this way has helped the company to reduce its business costs and enhance sustainability, and also to improve productivity. For example, it was recently able to fill an order for 30,000 pairs of sandals in only three weeks![6]

evolve. If formal planning efforts reduce the vision to a programmed routine, that too can lead to disaster.

Manager's response: Planning should enhance and support intuition and creativity, not replace it.

Criticism: *Planning focuses managers' attention on today's competition, not on tomorrow's survival.* Formal planning, especially strategic planning (which we'll discuss shortly), has a tendency to focus on how best to capitalise on existing business opportunities within the industry. Managers may not look at ways to re-create or reinvent the industry.

Manager's response: When managers plan, they should be open to forging into uncharted waters if there are untapped opportunities.

Criticism: *Formal planning reinforces success, which may lead to failure.* You may have heard people say that success breeds success. After all, if it's not broken, don't fix it. Right? Well maybe not! Success may, in fact, breed failure in an uncertain environment. It's hard to change or discard successful plans – to leave the comfort of what works for the uncertainty (and anxiety) of the unknown.

Manager's response: Managers may need to face that unknown and be open to doing things in new ways to be even more successful.

Does formal planning improve organisational performance?

Does it **pay** to plan?

Does it pay to plan? Or have the critics of planning won the debate? Let's look at the evidence.

Contrary to what the critics of planning say, the evidence generally *supports* the position that organisations should have formal plans. Although most studies that have looked at the relationship between planning and performance have shown generally positive relationships,

Managing for diversity and inclusion Focuses on diversity issues in organisations and reinforces to students that diversity and inclusion influence every aspect of a manager’s job.

MANAGING FOR DIVERSITY AND INCLUSION

Being a more inclusive person

Inclusiveness stems from respecting and valuing differences in people's perspectives, skills and abilities. It's about seeing and appreciating the unique and valuable qualities that each individual brings to a situation. That takes four particular interpersonal qualities: understanding, empathy, tolerance and communication.[70]

Cultural, physical and other differences can cause people to behave in different ways. Understanding and accepting these differences is the first part of creating an inclusive work environment. Encouraging others to do the same helps even more to create a positive diversity climate where differences are respected and valued.

Empathy is closely related to understanding and stems from understanding others' perspectives. Put yourself in their place and encourage others to empathise as well. For example, suppose a new team member joins a team that has worked together for a long time. The team can make their new colleague feel more welcome and comfortable by identifying with how they might feel. Are they excited or disappointed about their new work assignment? What were their previous work experiences? How can the team help them feel more comfortable? By empathising, existing team members can work together better as an effective group.

Tolerance is another important interpersonal consideration. Just because you understand that people are different and you empathise with them doesn't mean that it's any easier to accept different perspectives or behaviours. But it's important to be tolerant and open-minded about different values, attitudes and behaviours.

Finally, open and two-way communication is important to managing a diverse team. Diversity problems may intensify if people are afraid or unwilling to openly discuss issues that concern them. If a person wants to know whether a certain behaviour is offensive to someone else, it's best to ask. Likewise, a person who is offended by another's behaviour should explain their concerns and ask that person to stop. Such communication exchanges can be positive when they're handled in a non-threatening, low-key and friendly manner.

How do learning theories explain behaviour?

Learning outcome 11.5
Discuss learning theories and their relevance in shaping behaviour.

The last individual behaviour concept we're going to look at is learning. Since almost all behaviour is learnt, we need to understand how people learn if we want to explain, predict and influence behaviour. **Learning** is any relatively permanent change in behaviour that occurs as a result of experience. Two learning theories help us understand how and why individual behaviour occurs: operant conditioning and social learning.

learning
A relatively permanent change in behaviour that occurs as a result of experience

What is operant conditioning?

Operant conditioning argues that behaviour is a function of its consequences. People learn to behave in ways to get something they want or to avoid something they don't want. Operant conditioning proposes that people will most likely engage in desired behaviours if they are positively reinforced for doing so, and rewards are most effective if they immediately follow the desired response. Behaviour that isn't rewarded or is punished is less likely to be repeated. This means that the linkage between behaviour and reinforcement can also result in people learning to behave in ways that work against the best interests of the organisation. Assume that your boss tells you that if you work overtime during the upcoming three-week busy season, you'll be rewarded with a very positive evaluation in your next performance appraisal. However, when performance appraisal time comes, your boss omits to praise you for pitching in and helping out when needed, so your extra effort isn't positively reinforced. As a result, the next time your boss asks you to work overtime, you'll probably refuse because if a behaviour isn't positively reinforced, it's less likely to be repeated.

operant conditioning
A theory of learning that says behaviour is a function of its consequences

What is social learning theory?

In addition to learning through direct experience, individuals also learn by observing what happens to other people or just by being told about something. Much of what we have learnt comes from watching others (models): parents, teachers, peers, television and movie actors, managers and so forth. This view that we can learn both through observation and direct experience is called **social learning theory**.[71]

social learning theory
A theory of learning that says people can learn through observation and direct experience

Rethinking management in a global crisis Shows how the COVID-19 pandemic has changed ways of thinking about and practising management.

RETHINKING MANAGEMENT IN A GLOBAL CRISIS

New 'rules of the game' change the value of chains

Traditionally, the competitive success of a restaurant depended on the value chains it could build with the suppliers of its food, its drinks and its service. For some, success has been based on building value chains through which they can source the best-quality meat, vegetables, herbs and spices for their dishes. For others, it has also stemmed from value chains that provide access to innovative, delicious and high-quality beverages. But on 22 March 2020, in response to the COVID-19 pandemic, the Australian government announced a ban on in-house dining at all restaurants; only those selling food for takeaway or delivery would be able to continue operating. Suddenly, business survival came down to whether a restaurant currently had value chains that enabled takeaway and home delivery services, or could create them very quickly! As businesses scrambled to adapt to this sudden change in the 'rules of the game', delivery services such as Uber Eats and Deliveroo became highly desirable (and powerful) chain partners. But while some restaurants adapted by joining delivery service value chains, others decided to go it alone. Some opted to deliver their own food, deploying wait staff as delivery drivers in order to keep them in work. Others opted to only provide takeaway options and simply scale down their operations accordingly. Still others opted instead to shut down and hope that their customers would return when they could resume business as usual.

Collaborating with external and internal partners to create and manage a successful value chain requires significant investments of time, energy and other resources plus a serious commitment by all chain partners. It can be a lot of work, but a survey of manufacturers found it produces four primary benefits: improved procurement, improved logistics, improved product development, and enhanced customer order management.[11] Benefits can also escalate over time. For example, when Iomega Corporation, a manufacturer of personal computer storage devices, began managing its value chains, it started by improving relationships with internal suppliers, then expanded to its relationships with external suppliers and customers. As the company's experience with value chain management intensified and improved, so did its connection to customers, which ultimately paid off for all its value chain partners.[12]

Value chain management also requires a significant shift in mindset for some organisations because the power dynamics of value chain management are quite different from those of more traditional business relationships. Traditionally, the power in a supply chain might reside with a supplier who provides needed resources and materials, and has the power to dictate process and quality. Or it might lie with the manufacturer, who converts those resources into a commercially successful product or service. Or it may lie with the distributor, who makes sure the product or service is available where and when the customer needs it. But in value chain management, ultimately customers are the ones with the power,[13] because it is they who decide what value (if any) the chain's activities create that is worth paying for.

What are the requirements for successful value chain management?

As you can see in the following figure, there are six main success requirements for value chain management. Let's look at each one more closely.

Coordination and collaboration

For the value chain to achieve its goal of fulfilling customer needs and desires, comprehensive and seamless integration among all members of the chain is essential. All partners in the value chain must identify things that customers value. Sharing information and being flexible as far as who in the chain does what are important steps in building coordination and collaboration. This sharing of information and analysis requires open communication among the various value chain partners.

Technology investment

Successful value chain management isn't possible without a significant investment in information technology (IT). According to experts, the key tools include a supporting enterprise resource planning (ERP) software system that links all of an organisation's activities,

Classic concepts in today's organisations Helps students to understand a classic management concept.

CLASSIC CONCEPTS FOR TODAY'S ORGANISATIONS

Scientifically studying the workplace

Hugo Munsterberg, a pioneer in the field of industrial psychology, is 'generally credited with creating the field'.[9] An admirer of Frederick W. Taylor and the scientific management movement, Munsterberg stated: 'Taylor... introduced most valuable suggestions which the industrial world cannot ignore.' Drawing on Taylor's works, Munsterberg stressed the importance of 'efficiently using workers to achieve economic production'. His research and work in showing organisations ways to improve the performance and wellbeing of workers was fundamental to the emerging field of management in the early 1900s.

Today, industrial–organisational (I/O) psychology is defined as the scientific study of the workplace. I/O psychologists use scientific principles and research-based designs to generate knowledge about workplace issues. (Check out the Australian Psychological Society College of Psychologists at www.groups.psychology.org.au/cop.) They study topics such as job performance, job analysis, performance appraisal, compensation, work/life balance, work sample tests, employee training, employment law, personnel recruitment and selection, and so on. Their research has contributed much to the field that we call human resource management. And all of this is due to the early work done by Hugo Munsterberg.

Discuss this:

- Why is it important to scientifically study the workplace?
- Do you think it's easier today to scientifically study the workplace than it was back in Munsterberg's day? Why or why not?

organisation's products or services. Managers can estimate future revenues and then predict the number and mix of people needed to reach that revenue. In some cases, however, the situation may be reversed. When particular skills are necessary and in scarce supply, the availability of needed human resources determines revenues. For example, managers of an upmarket chain of aged-care facilities who find themselves with abundant business opportunities are limited in their ability to grow revenues by their ability to locate and hire qualified nursing staff to fully meet the needs of the residents. In most cases, however, the overall organisational goals and the resulting revenue forecast provide the major input in determining the organisation's HR requirements.

After assessing both current capabilities and future needs, managers can estimate talent shortages – both in number and in kind – and highlight areas in which the organisation is overstaffed. They can then develop a plan that matches these estimates with forecasts of future labour supply. Employment planning not only guides current staffing needs but also projects future employee needs and availability.

How do managers reduce their workforce?

When an organisation has too many employees – which may happen when it's faced with an economic crisis, declining market share, or overly aggressive growth, or when it's been poorly managed – eliminating excess workers can help to reduce costs and improve profits. In the past decade or so, and especially in recent years, most global organisations, as well as many government agencies and small businesses, have been forced to shrink the size of their workforce or restructure their skill composition. For instance, Coca-Cola laid off 1,600 to 1,800 of its corporate US and international employees;[10] American Express cut costs by eliminating 4,000 jobs after failing to meet long-term revenue growth targets;[11] and eBay cut 2,400 jobs (7 per cent of its workforce) to enable it to adapt to changing conditions.[12]

When reducing or downsizing a workforce, there are a number of strategies that can be used, as summarised in Table 9.2. Obviously, people can be fired, but other restructuring choices may be more beneficial to the organisation. Keep in mind that, regardless of the method chosen, employees suffer. We discuss the impacts of downsizing more fully – for both victims and survivors – later in this chapter.

A question of ethics Presents students with an ethical dilemma and encourages them to practise their skills in ethical and critical decision making.

A QUESTION OF ETHICS

Being set up to fail?

- 26% of new managers feel they're unprepared to transition into management roles.
- 58% of new managers don't receive any training to help them make the transition.
- 48% of first-time managers fail in that transition.

Moving to a management position isn't easy, as these statistics indicate.[17]

Discuss this:

- Does an organisation have an ethical responsibility to assist its new managers in their new positions? Why or why not?
- What could organisations do to make this transition easier?

What factors are reshaping and redefining management?

Learning outcome 1.4
Describe the factors that are reshaping and redefining management.

Welcome to the **new world of management**!

In today's world, managers are dealing with changing workplaces and workforces, changing technology and global uncertainties. Managers everywhere are dealing with fluid and changing circumstances, and *how* managers manage is changing as a result. Throughout the rest of this text, we'll be discussing these changes and how they're impacting the way managers plan, organise, lead and control. Here, we want to highlight six of these changes: the increasing importance of customers, innovation, diversity and inclusion, social media, sustainability, and the COVID-19 global pandemic.

Why are customers important to the manager's job?

John Chambers, a former CEO of Cisco Systems, liked to listen to voice mails forwarded to him from dissatisfied customers. 'Email would be more efficient,' he conceded, 'but I want to hear the emotion, I want to hear the frustration, I want to hear the caller's level of comfort with the strategy we're employing. I can't get that through email.'[18] A manager like Chambers understands the importance of customers. Organisations need customers because without them, most would cease to exist. Focusing on the customer was once thought to be the responsibility of marketing people. But now managers are recognising that delivering consistent high-quality customer service is essential and that employees are an important part of that equation.[19] In fact, in developed countries such as Australia, Germany and Japan, more than 70 per cent of the labour force works in customer service roles such as sales assistants, teachers, bartenders, nurses, receptionists, financial planners and bank tellers.[20] The implication is clear: they must create a customer-responsive organisation where employees are friendly and courteous, accessible, knowledgeable, prompt in responding to customer needs and willing to do what's necessary to please the customer.[21]

Why is innovation important to the manager's job?

Success in business today demands innovation: doing things differently, exploring new territory and taking risks. And innovation isn't just for high-tech or other technologically sophisticated organisations; innovative efforts are needed in all types, all levels, all areas and all sizes of organisations. In today's challenging environment, innovation is critical. Managers not only need to be innovative personally; they must also encourage their employees to be innovative. That means understanding what, when, where, how and why it can be fostered and encouraged throughout their organisation. We'll share stories of innovative practices and approaches throughout this text.

Discussion questions These are presented at the end of each chapter.

13.5 Discuss trust as the essence of leadership.

The five dimensions of trust include integrity, competence, consistency, loyalty and truthfulness. Integrity refers to one's honesty and truthfulness. Competence involves an individual's technical and interpersonal knowledge and skills. Consistency relates to an individual's reliability, predictability and good judgment in handling situations. Loyalty is an individual's willingness to protect and save face for another person. Openness means that you can rely on the individual to give you the whole truth.

discussion questions

13.1 Define the terms *leader* and *leadership* and discuss why managers should be leaders.

13.2 'The problems with trait theories of leadership is that they become self-fulfilling prophecies.' Discuss.

13.3 What does each of the behavioural leadership theories say about leadership?

13.4 What would a manager need to know to use Fiedler's contingency model? Be specific.

13.5 Do you think that most managers in real life use a contingency approach to increase their leadership effectiveness? Discuss.

13.6 How would LMX influence an organisation's attempts to promote diversity and inclusiveness?

13.7 Do you think trust evolves out of an individual's personal characteristics or out of specific situations? Explain.

13.8 Do followers make a difference in whether a leader is effective? Discuss.

13.9 Think of a leader you know (or know of) who has accomplished extraordinary outcomes. What type of leader were they: Transactional? Transformational? Charismatic? Visionary? Why do you think they were so successful?

13.10 When might leaders be irrelevant?

management skills spotlight
being a good leader

The terms *management* and *leadership* are frequently used interchangeably. That's a misnomer. The two aren't the same, but they *are* related. Although you don't need to hold a management position to be a leader, you're unlikely to be an effective manager if you can't be an effective leader.

experiential exercise

Situational leadership theory says people lead differently, depending on the situation they are in. Do you?

In this exercise you are going to reflect on two experiences you have had of exercising leadership and guiding others as to (a) what should be done, and/or (b) how it should be done.

First, think about an example from a work setting (it could be paid work or volunteer work). Now think about an example from your personal or family life. Work through each example. What were you trying to achieve? Whose help did you ask for? How did you help them understand what you wanted to achieve? How did you help them understand how you wanted them to help you do that?

Now reflect on those two experiences.

1. Describe your experiences. Did you handle both situations in the same way? Or did you take a different approach each time? If so, what did you do differently?
2. Interpret your experience. If you adapted your leadership approach, why did you do that? If you did not, why did you use the same approach each time?
3. Evaluate your experience. What does your experience indicate about the extent to which people might *actually* adapt their leadership style in different situations? What does it tell you about the factors that cause them to adapt their style?
4. How could you apply these lessons in the future? Next time you are exercising leadership, what will you focus on when you determine the leadership approach you will use?

Management skills spotlight This end-of-chapter feature highlights a key managerial skill related to the chapter topic. We chose these skills because of their relevance to developing management competence and their links to one or more of the topic areas in this book. The feature explains how each particular skill contributes to managerial success, and how building that skill will help students be more successful managers in the future.

3.8 What is environmental uncertainty? What impact does it have on managers and organisations? Find two examples in current business periodicals that illustrate how environmental uncertainty affects organisations.

3.9 If you were managing an organisation that operated in a highly dynamic and complex environment, how could you ensure you were still able to manage effectively?

3.10 'Businesses are built on relationships.' What do you think this statement means? What are the implications for managing the external environment?

management skills spotlight

scanning the external environment

If they are to deal effectively with a dynamic environment, managers need to understand *what* is changing, *how* it is changing, and how that change might affect the organisation. This includes understanding how much uncertainty the change might create, how dynamic the change may be, and how soon it might come into effect. Finally, it entails figuring out when a new development just needs to be 'on the radar', and when it's time to do something about it!

experiential exercise

Regulators are one of the most influential stakeholders in an organisation's environment because they determine the 'rules of the game' for its operations. So, it's critical that managers understand what regulators have specified about what their type of organisation can (and cannot) do, and how it can do it. In this exercise, you are going to learn how to research the regulations that apply in your local area.

1. Think of a business you would like to manage in the future. (If you can't think of one, think of the last business you dealt with.)
2. Now do some internet searching to find out what sorts of regulations exist for that type of business in your local area. Write a list of all the requirements you find. Make sure your searching includes:
   - **a.** federal government regulations that apply to all businesses in Australia (such as regulations about getting an Australian business number)
   - **b.** state government regulations that apply to businesses in your state (*Hint:* Try searching sites such as www.victoria.business.gov.au)
   - **c.** any local council regulations that might apply
   - **d.** any regulations that are specific to the type of business, such as regulations for cafés and restaurants. (*Hint:* Try searching for industry associations that relate to your type of business.)
3. Reflect on your experience in researching this element of your business environment.
   - **a.** Describe what happened when you tried to find relevant regulations. How easy was it to find the information you were looking for? How easy was it to work out what you had to do as a business owner?
   - **b.** Interpret your experience. Why do you think you had the challenges that you did?
   - **c.** Evaluate your experience. What did you learn from the experience about the ways in which regulators influence business operations and managers?
   - **d.** How could you apply your insights in the future? What would you do differently next time if you were researching regulators and regulatory requirements in the future?

Experiential exercise Each of these exercises is a hands-on activity in which students typically collaborate with other students to complete a task. Students then complete a guided reflection to help them identify what new insights about management they developed from completing the task, and how they can use those insights in the future.

discussion questions

9.1 How does HRM affect all managers?

9.2 Imagine you are the store manager of your local independent supermarket. Which of the HRM areas depicted in Figure 9.1 do you think you would be directly involved in?

9.3 Some critics claim that corporate HR departments have outlived their usefulness; that their purpose isn't to help employees but to shield the organisation from legal problems. What do you think? What benefits are there to having a formal HRM process? What are the drawbacks?

9.4 Do you think it's ethical for a prospective employer to delve into an applicant's life by means of interviews, tests and background investigations? What if those investigations involved looking at your Facebook, Instagram or Twitter accounts? Explain your position.

9.5 Which recruiting sources would you use to recruit for the position of (a) a hairdresser, (b) a school principal, and (c) a CEO?

9.6 Discuss the advantages and drawbacks of the various selection devices.

9.7 What are the benefits and drawbacks of realistic job previews? (Consider this question from the perspective both of the organisation *and* of a potential employee.)

9.8 List the factors that influence employee compensation and benefits.

9.9 What, in your view, constitutes sexual harassment? Describe how companies can minimise sexual harassment in the workplace.

9.10 Discuss the external environmental factors that most directly affect the HRM process.

management skills spotlight
providing good feedback

Everyone needs feedback! If you want people to do their best, they need to know what they're doing well and what they can do better. That's why providing feedback is so important. But being effective at giving feedback is tricky! That's why we often see managers either (a) not wanting to give feedback, or (b) giving feedback in such a way that it doesn't result in anything positive.

experiential exercise

Job interviews are one of the most common selection tests used in organisations. When they are done well, they provide valid and reliable evidence as to how people are likely to perform on the job. Like any test, they have to be performed consistently so every applicant experiences the same test conditions. But that's harder than it sounds!

In this exercise, you will interview three 'job applicants' so you can see what it takes to conduct the interviews the same way every time, and what might prevent you from doing that.

1. Imagine you are hiring someone to either (a) walk your dog for you, or (b) clean your house.
2. Develop some interview questions you would ask someone in order to determine whether they would be suitable to hire for that job.
3. Do some online research about conducting job interviews and develop some techniques to help you conduct the interviews the same way every time.
4. Select three friends or classmates and interview each one for the job.
5. Now reflect on your experiences.
   a. Describe what happened. How were the interviews different from each other? What happened in one/some but not in the other(s)?
   b. Interpret your experience. Why do you think things played out differently in some interviews than in others?
   c. Evaluate your experience. What did you learn about the factors that can cause selection interviews to play out differently?
   d. How could you apply your insights in the future? What would you do differently next time you are conducting selection interviews to make them more consistent?

Application case These cases, which appear at the beginning and end of each chapter, cover situations involving managers, management and organisations. To help students apply management concepts to the real world, the cases ask them to assess a situation and answer questions about ‘how?’ and ‘why?’, and ‘what would you do?’.

case application Going greener

When Dean and Gill Belle took over the Mansfield Regional Produce Store, they faced an important question: how could they upgrade the premises to make it more environmentally sustainable while still maintaining its historic charm? The answer turned out to be: with a lot of careful decisions![58]

The Mansfield Regional Produce Store is a busy café located in the main street of Mansfield, Victoria. It's easily identifiable by the three bright yellow umbrellas that shade the café tables out the front. The building was originally built in 1895 to be an auction room, and its high cathedral ceilings and exposed rafters are part of its historical and rustic charm. But when Dean and Gill took over the store in 2007, they realised it also needed a serious upgrade! The concrete floor, high ceilings and lack of ceiling insulation meant the building was difficult to heat in winter and uncomfortably hot in summer. The kitchen had only one stove and a bathroom-style exhaust fan, which soon proved inadequate when the café became popular very quickly. Using 'a bit of common sense', Google, and restaurant and catering industry magazines, Dean and Gill began to search for some solutions.

Better decisions = better business.

The first priority was replacing the kitchen exhaust fans to improve ventilation for the kitchen and make the premises compliant with regulations. But the solution to one problem created another. In winter, the fans sucked cold air through gaps in the café's windows, creating a cold draft for customers. Using an infrared thermometer gun, Dean took temperature measurements to map the cold airflow, then stopped the draughts by using draught stoppers and taping over the window frames.

When the roof cladding needed replacing, Dean and Gill took the opportunity to also insulate the ceiling to reduce energy wastage and heat loss. They decided to install a thin skin of insulation because, as they recalled, 'We had limited time available and a limited budget, and there were many factors involved in the decision . . . but we didn't have the information we needed to make a properly informed choice.'

Other big decisions taught them additional lessons about the challenges of making fully informed choices. The café hosts monthly Bracket and Jam live music evenings. To create the right ambience, Dean and Gill decided to replace the building's incandescent light globes with compact fluorescents that could be dimmed. At the time, dimmable fluorescent lights were new on the market and expensive to purchase, so buying the 10 globes that would be needed to light the space required was a significant investment. Dean and Gill investigated different options online, but found that 'it can be a challenge to calculate capital outlay versus the return, when you have to consider cash flow. That can be a hard calculation to make, without all the information at your fingertips.' Especially when it turned out that the globes didn't last anything like as long as the 2,000 hours that were estimated.

Ironically, cooling also became an issue as the refrigeration unit in the cool room was old and constantly being repaired. Luckily, 'a new mechanic, with more training, helped us understand that upgrading to a new, more efficient model would be more cost effective than continually patching the old unit'. When the pair also needed to replace the café's hot water system, they asked others in the industry for advice and made careful calculations of their hot water needs, the available space and the cost of different systems. As they recalled, 'It was frustrating – trying to make an informed decision. In the end we just had to make a call!' Fortunately, their decisions not only made the café more energy efficient, but also helped it to expand and thrive.

Discussion questions

5.11 List some of the decision criteria you think Dean and Gill used in their decision making. Are there any other criteria they could have used to help them make better decisions?

5.12 How do you think they weighted the criteria? Which ones were they likely to consider of more importance? Which ones might they have considered less important?

5.13 Would Dean and Gill's decision-making conditions have been characterised by certainty, risk or uncertainty? Explain.

5.14 What do Dean and Gill's experiences indicate about the challenges of trying to engage in rational decision making?

Content matrix: Chapters and cases

About the authors

STEPHEN P. ROBBINS received his PhD from the University of Arizona. He previously worked for the Shell Oil Company and Reynolds Metals Company, and has taught at the University of Nebraska at Omaha, Concordia University in Montreal, the University of Baltimore, Southern Illinois University at Edwardsville, and San Diego State University. He is currently professor emeritus in management at San Diego State.

Dr Robbins's research interests have focused on conflict, power and politics in organisations, behavioural decision making, and the development of effective interpersonal skills. His articles on these and other topics have appeared in such journals as *Business Horizons*, the *California Management Review, Business and Economic Perspectives, International Management, Management Review, Canadian Personnel and Industrial Relations* and the *Journal of Management Education*.

Dr Robbins is the world's best-selling textbook author in the areas of management and organisational behaviour. His books have sold more than 10 million copies and have been translated into 20 languages. His texts are currently used at more than 1,500 colleges and universities in the United States, as well as in hundreds of schools throughout Canada, Latin America, Australia, New Zealand, Asia and Europe. For more details, see **stephenprobbins.com**.

MARY COULTER (PhD, University of Arkansas) held a number of different jobs – including high school teacher, legal assistant and city government program planner – before completing her graduate work. She has taught at Drury University, the University of Arkansas, Trinity University and Missouri State University. She is currently professor emeritus of management at Missouri State University. In addition to this text, Dr Coulter has published other books with Pearson, including *Management* (with Stephen P. Robbins), *Strategic Management in Action* and *Entrepreneurship in Action*.

When she's not busy writing, Dr Coulter enjoys pottering about in her flower gardens, trying new recipes, reading all types of books, and enjoying many different activities with husband Ron, daughters and sons-in-law Sarah and James, and Katie and Matt, and most especially with her two grandkids, Brooklynn and Blake, who are the delights of her life!

DAVID A. DECENZO (PhD, West Virginia University) is president of Coastal Carolina University in Conway, South Carolina. He has been at Coastal since 2002 when he took over leadership of the E. Craig Wall Sr College of Business. As president, Dr DeCenzo has implemented a comprehensive strategic planning process, ensured fiscal accountability through policy and practice, and promoted assessment and transparency throughout the university. Before joining the Coastal faculty, he served as director of partnership development in the College of Business and Economics at Towson University in Maryland. He is an experienced industry consultant, corporate trainer, public speaker and board member. Dr DeCenzo is the author of numerous textbooks that are used widely at colleges and universities throughout the United States and the world.

Dr DeCenzo and his wife, Terri, have four children: Mark, Meredith, Gabriella and Natalie, and reside in Pawleys Island, South Carolina.

MEGAN WOODS (PhD, University of Tasmania) is a senior lecturer at the University of Tasmania, where she teaches management, human resource management and qualitative research methods. Her overarching interest in experiential learning informs her research and teaching. Dr Woods's research focuses on adaptive learning at individual and organisational levels, with a particular focus on experiential learning in organisational settings and learning related to the management of mental health issues in the workplace. She is a keen methodologist with a special interest in computer-supported qualitative and mixed methods research. Her research on these and other topics has appeared in journals such as the *Academy of Management Learning and Education, Work, Employment and Society* and the *International Journal of Social Research Methodology*. She has also developed a suite of learning resources (with colleagues Angela Martin, Rob Macklin and Sarah Dawkins) for the Australian and New Zealand Academy of Management to teach managers about supervising employees with mental health issues.

Reviewers

We would like to acknowledge the following reviewers for their valuable feedback and advice in helping us to develop this fifth Australian edition:

Leanne Berry, *University of Tasmania*

Francois Bosquet, *RMIT University*

Nasir Butrous, *Australian Catholic University*

Jess Co, *Monash University*

Amanda Daly, *Griffith University*

Patrick Gillett, *Southern Cross University*

Warwick Green, *University of Tasmania*

Asanka Gunasekara, *Swinburne University of Technology*

Bruce Johnstone, *Monash University*

Alick Kay, *University of South Australia*

Alf Kuilboer, *James Cook University*

Caleb Pak, *University of Tasmania*

Soma Pillay, *Federation University*

Arvind Ravindran, *University of South Australia*

Lynnaire Sheridan, *University of Otago*

Henry Shi, *University of Adelaide*

Clare Smith, *Monash University*

Noel Tracey, *University of the Sunshine Coast*

Danae Underwood, *University of South Australia*

Wendy Webber, *Deakin University*

Annika Westrenius, *University of Newcastle*

Acknowledgements

Writing and publishing a textbook requires the talents of a number of people whose names never appear on the cover. We would like to recognise and thank a phenomenal team of talented people whose skills and abilities made this book a reality.

This team includes Nina Sharpe (Portfolio Manager), Anna Carter (Content Specialist), Bernadette Chang (Production Manager), Lisa Woodland (Rights and Permissions Editor) and Robyn Flemming (Copy Editor).

We would like to offer special thanks to Sophie Ross for her work on the following case applications:

‘Dramatic decisions’ (**Chapter 5)**

‘Structural renewal at the Australian Red Cross’ (**Chapter 7)**

‘A fighting chance at a fair go’ (**Chapter 11)**

We also wish to thank the authors of the following case applications:

Lynnaire Sheridan and Jade Kennedy, ‘Facilitating change or forcing conformity?’ (**Chapter 9)**

Lynnaire Sheridan, ‘Unheard and undermined’ (**Chapter 14)**

Special thanks also to Bianca Humphrey, Randos Korobacz, Skye Targett, Natalie Strommer, Phoebe Adams and Kerran Langley for sharing with Megan Woods their experiences of operating their cleaning, maintenance and holiday accommodation businesses. While the Holiday Home Helpers case study is entirely fictional, their insights were invaluable in developing the scenarios it details.

Educator resources

As course instructors, we also know that adopting a new text means updating teaching materials, class activities and assessments. So, we’ve provided a range of resources to make this book a worthwhile addition to your course. We’ve also linked these resources to course accreditation standards, to help you make the best use of the text to achieve your teaching objectives.

Instructor’s Manual

The Instructor’s Manual provides educators with detailed, accuracy-verified solutions to in-chapter and end-of-chapter problems, as well as group activities that can be used as part of teaching.

Test Bank

The Test Bank provides a wealth of accuracy-verified testing material. Updated for the new edition, each chapter offers a wide variety of question types, arranged by learning outcome and tagged by AACSB standards.

Questions can be integrated into Blackboard, Canvas or Moodle Learning Management Systems.

Lecture Slides

A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the course content.

Digital Image PowerPoint Slides

All the diagrams, photographs and tables from the course content are available for instructor use.

Chapter 1 Managers and management

Fact or fiction?

Only those who want to be managers need to study management.

Fiction

Anyone who works in an organisation – ***not just managers*** – can gain insight into how organisations work and their boss's behaviour by studying management.

A lot of people think good management is just 'good common sense', but it's a lot more complicated than that! In fact, as we'll detail in this text, extensive research has shown that a lot of 'good management' is actually counterintuitive. To reinforce this point, we open each chapter with

a fact about management that runs counter to common sense.

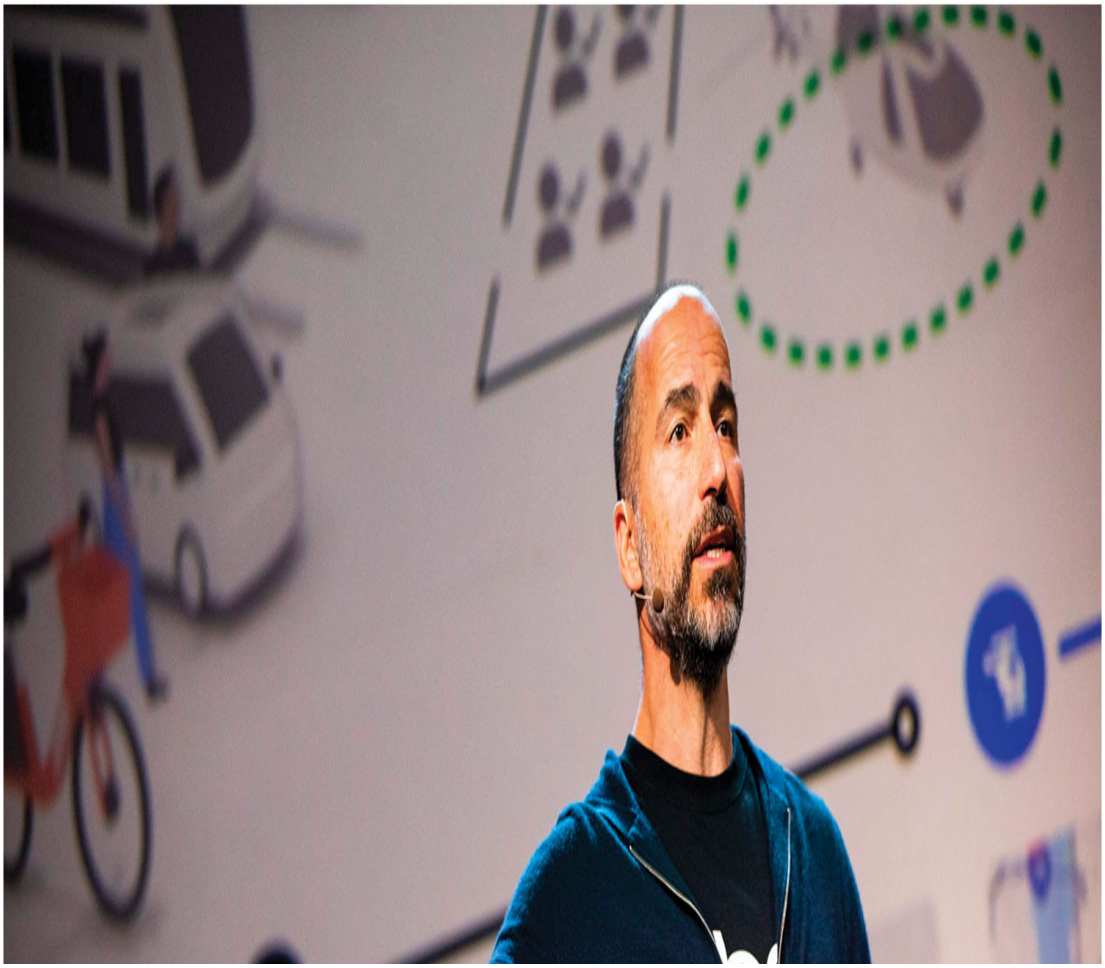
In this chapter, we'll explain why you don't have to be a manager, or aspire to be a manager, to gain something from a management course. Formally studying management provides a 'toolkit' of perspectives and approaches you can draw on to manage different situations or to understand what managers are doing. So, the more you learn about management, the better understanding you'll have of the managers you work with and of how to be a manager yourself.

We like to think that all managers are good at managing, but this isn't necessarily the case: managers can be good, or not so good, at what they do – or even good one day and not so good the next! But *all* managers have important jobs to do. In this chapter, we introduce you to managers and management: who they are, where they work, what management is, how managers manage, and what important factors are reshaping and redefining management in today's organisations. We'll finish by examining even more reasons why you'll benefit from studying management.

Learning outcomes

1.1 Identify who managers are and where they work.
1.2 Define management.
1.3 Describe what managers do.
1.4 Describe the factors that are reshaping and redefining management.
1.5 Explain why it's important to study management.

Becoming an Uber boss



When Dara Khosrowshahi became the new head of Uber in 2017, he set a new cultural tone for the company by listening, empathising and apologising, and by sharing power.

PHILIP PACHECO/AFP/Getty Images

When Dara Khosrowshahi's (pronounced 'Cause-Row-Sha-hee') became the CEO of Uber in August 2017, he had quite a clean-up job to do![1] Since its founding in 2009, Uber had become a global disruptor of the taxi industry and the subject of numerous scandals. In 2017 alone, the company lost more than 200,000 passenger trips due to the #DeleteUber movement, and suffered further reputational damage when a former Uber employee wrote a blog exposing the company's dysfunctional culture to the world. When Uber's founder, Travis Kalanick, was forced to step down as CEO, the company was

leaderless for two months with ‘a dysfunctional board of directors’ and haemorrhaging staff.

One of Khosrowshahi’s biggest challenges on taking over the management of Uber was to undo the reputational damage caused by Kalanick’s ‘overly aggressive’, win-at-any-cost leadership style. In its bid to squeeze out competitors and dominate the market, Uber had recruited heavily, including hiring some unsuitable and unsafe drivers. In fact, there were so many allegations of sexual misconduct by drivers that the company developed its own system for categorising 21 different types of behaviour and assault.

Khosrowshahi has modelled a very different approach. ‘He didn’t come in guns blazing . . . he came in listening,’ recalled Uber’s global director of people experiences and employer brand. In his first two weeks on the job, he held roundtable discussions with Uber drivers to hear first hand why they were dissatisfied with the company. He shadowed customer support staff to hear what customers were saying about their experiences with Uber’s services. He also met with Uber’s diversity support groups, including those that supported black, latino, female and LGBTQ employees, and went on to hire the company’s first diversity and inclusion officer.

While Kalanick’s mantra had been described as ‘no-apologies-necessary’, Khosrowshahi’s is ‘acknowledge-apologise-learn to do better’. Only a month into the job, he wrote an open letter to the city of London, in which he stated: ‘While Uber has revolutionized the way people move in cities around the world,

it’s equally true that we’ve got things wrong along the way . . . On behalf of everyone at Uber globally, I apologize for the mistakes we’ve made.’ Two months later, he publicly disclosed that when hackers had accessed company data related to 57 million drivers and riders in October 2016, Uber had paid US$100,000 to have the information deleted. ‘None of this should have happened, and I will not make excuses for it,’ he said. ‘While I can’t erase the past, I can commit on behalf of every Uber employee that we will learn from our mistakes.’ This commitment was tested in March 2018, when an Uber self-driving vehicle killed a pedestrian. To ensure the issue was thoroughly investigated and handled well, Uber grounded its driverless cars for nine months.

‘Doing better’ has included providing a more stable and functional work environment for Uber employees. One aspect of this has been redefining Uber’s cultural norms. Kalanick had previously developed 14 ‘cultural values’ for Uber that included ‘toe-stepping’, ‘always be hustling’ and ‘principled confrontation’. Khosrowshahi crowdsourced Uber’s new cultural values by reaching out to the company’s workforce for suggestions and distilling the 1,200 submissions he received into eight cultural norms that included ‘We celebrate differences’, ‘We value ideas over hierarchy’, ‘We persevere’ and ‘We do the right thing. Period’. Another initiative has been improving the company’s financial position by negotiating a US$9.3 billion investment deal with Softbank and leading the company’s listing on the New York Stock Exchange. A third element has been expanding Uber’s business focus to include

electric bicycle and third-party transportation services that currently include UberEats and will eventually include trucking and other logistics services.

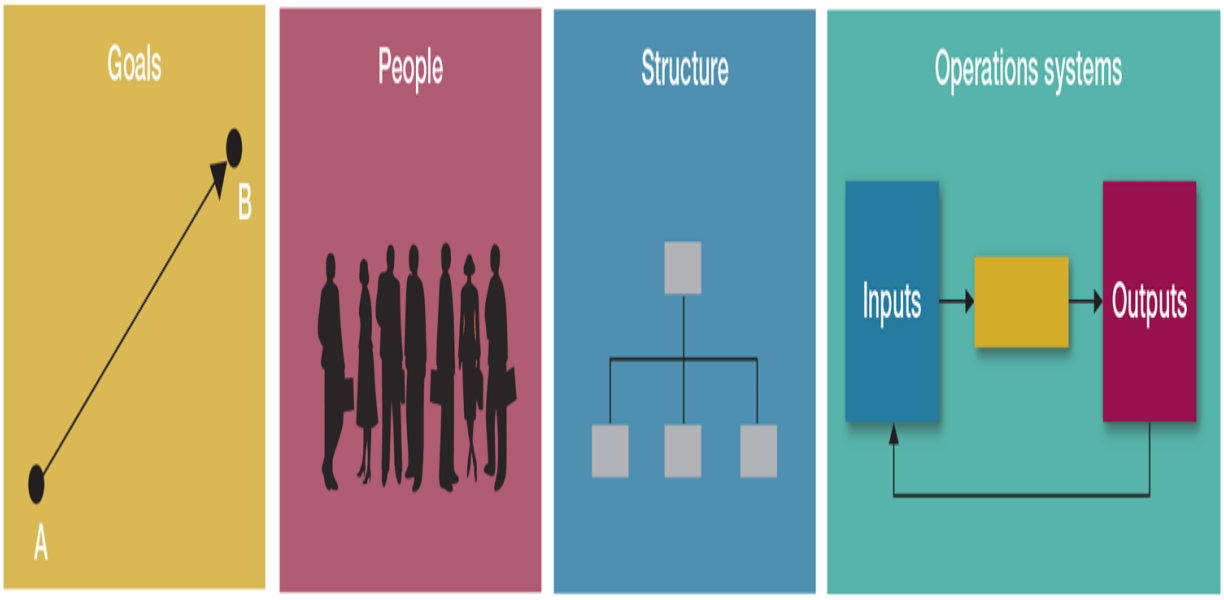
Running a company that operates in 63 countries with more than 22,000 employees continues to present many challenges. But Khosrowshahi's approach has certainly been appreciated by those who work for him. As CEO of Expedia, he got a 94 per cent approval rating from his staff on job site Glassdoor: at Uber, his rating has climbed to 96 per cent!

Who are managers, and where do they work?

Learning outcome 1.1 Identify who managers are and where they work.

Managers today can be under age 18 or over 80. They may be any gender, or from any socioeconomic or cultural background. They can be found in all industries. They manage entrepreneurial businesses, large corporations, government agencies, hospitals, museums, schools and not-for-profit enterprises. Some hold top-level management jobs, while others are supervisors or team leaders. However, all managers share one common element: they work in an organisational setting. An **organisation** is a deliberate arrangement of people brought together to accomplish some specific purpose. For example, your university or college is an organisation, as are the Red Cross, your local supermarket, the Cancer Council, and global companies such as Nestlé, Nokia and Nissan. These and all organisations share four common characteristics (see **Figure 1.1**).

Figure 1.1 Four characteristics of organisations



organisation

A systematic arrangement of people brought together to accomplish some specific purpose

What four characteristics do all organisations share?

The *first* characteristic of an organisation is that it has a distinct purpose, which is typically expressed as a goal or set of goals. For example, Bob Iger, when president and CEO of Walt Disney Company, said that his company's goal was to create amazing family entertainment and provide customers with extraordinary experiences, which would then lead to increasing shareholder value.

Those goals are achieved by the people in an organisation, which is the *second* common characteristic. An organisation's people make decisions and engage in work activities to make the desired goal(s) a reality. For example, at Disney, many employees work to create the content and experiences that are so important to the company's businesses. Others provide supporting services or interact with guests (customers) directly.

The *third* characteristic is that an organisation is structured in some way that defines and limits the behaviour of its members. Disney, like most large organisations, has a fairly complex structure with different businesses, departments and functional areas. Within that structure, rules and regulations might guide what people can or cannot do, some members will supervise other members, work teams might be formed, and job descriptions might be created so that organisational

members know what they're supposed to do. That structure is the setting within which managers manage.

The *fourth* characteristic of organisations is that they have an operational system that transforms inputs into outputs. Manufacturing organisations turn raw materials into physical goods such as hamburgers, cars and mobile phones. Service organisations use raw materials to deliver services to clients, such as dentists providing dental care, mechanics repairing vehicles, and postal services delivering mail.

How are managers different from non-managerial employees?

Not everyone who works in an organisation is a manager. For simplicity's sake, we'll divide organisational members into two categories: non-managerial employees and managers. **Non-managerial employees** are people who work directly on a job or task and have no responsibility for overseeing the work of others. The employees who help you choose paint at the home decorating store, who clean your clothes at the dry-cleaners or who process your university enrolment are all non-managerial employees. These non-managerial employees may be referred to by names such as associates, team members, contributors or even employee partners. **Managers**, on the other hand, are individuals in an organisation who direct and oversee the activities of other people in that organisation so that its goals can be accomplished. A manager's job isn't about *personal* achievement – it's about helping *others* to do their work. That may mean coordinating the work of a departmental group, or it might mean supervising a single person. It could involve coordinating the work activities of a team with people from different departments or even people from outside the organisation, such as temporary employees or individuals who work for the organisation's suppliers. This distinction doesn't mean, however, that managers don't ever work directly on tasks. Some managers do have work duties not directly related to overseeing the activities of others. For

example, an insurance claims supervisor might process claims in addition to coordinating the work activities of other claims employees.

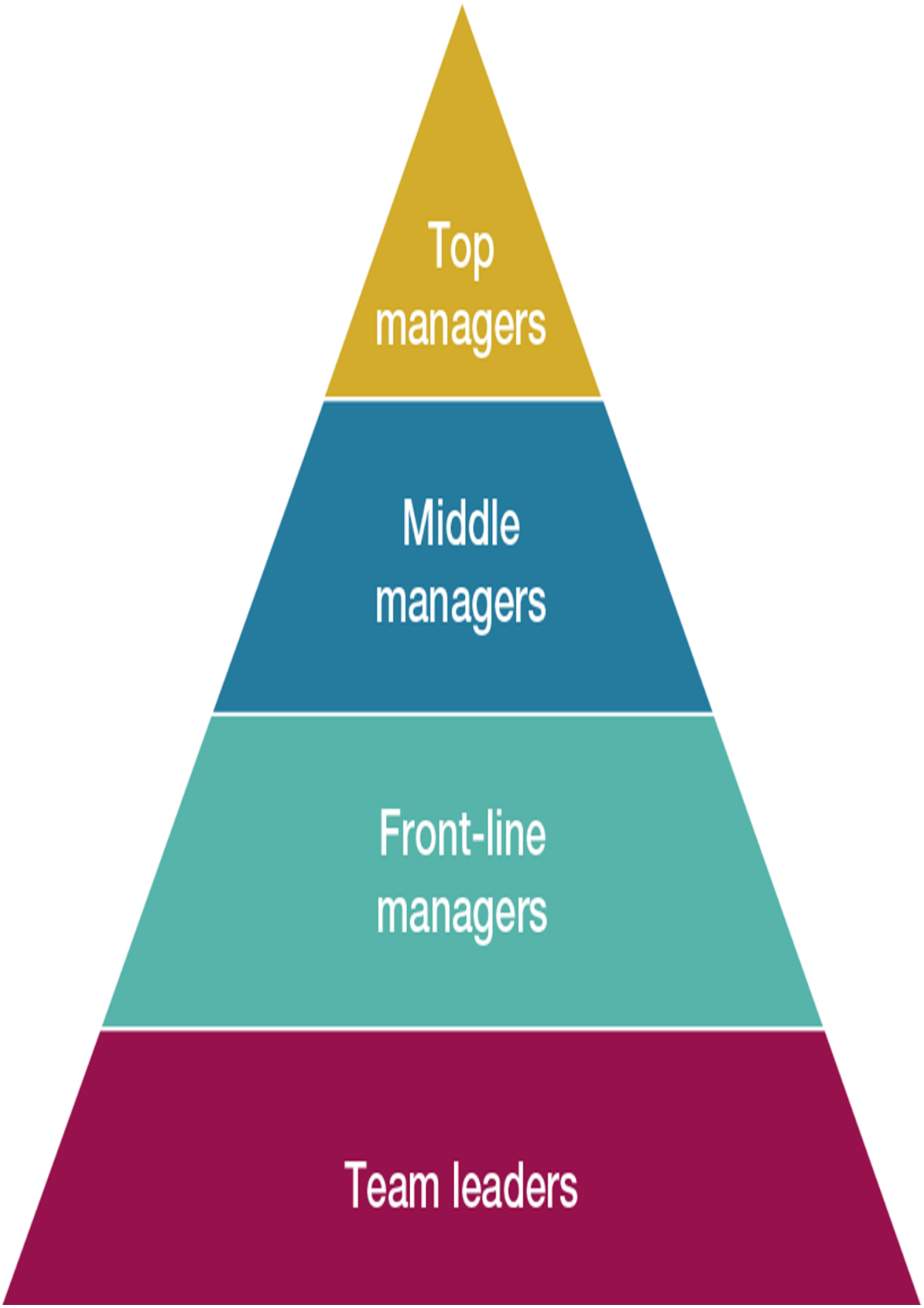
non-managerial employees
: People who work directly on a job or task and have no responsibility for overseeing the work of others

managers
: Individuals in an organisation who direct the activities of others

What titles do managers have?

Managers can have a variety of titles but are usually classified as top, middle or front-line managers, or team leaders (see **Figure 1.2**). **Top managers** are those at or near the top of an organisation. They're usually responsible for making decisions about the direction of the organisation, and for establishing policies and philosophies that affect all organisational members. Top managers typically have titles such as managing director, chief operating officer, vice president, president, chancellor, chief executive officer or chairperson of the board. **Middle managers** are those managers found between the lowest and top levels of the organisation. These individuals often manage other managers, and maybe some non-managerial employees, and are typically responsible for translating the goals set by top managers into specific details and tactical plans. Middle managers may have such titles as department or agency head, project leader, unit chief, district manager, division manager or store manager. **Front-line managers** are those individuals responsible for directing the day-to-day activities of non-managerial employees. Front-line managers are often called supervisors, shift managers, office managers, department managers or unit coordinators. These days, many organisations also have **team leaders** – that is, individuals who are responsible for managing and facilitating the activities of a work team. Team leaders will typically report to a front-line manager.

Figure 1.2 Management levels



Rebecca Clare is the operations manager and co-owner of PhysioWest, a health-care and wellbeing service located in Adelaide.[2] As a manager, Rebecca leads a purpose-driven team collectively focused on 'why' they exist and do what they do. Developing operational systems in line with this enables the business to run effortlessly and effectively, and provides a firm foundation for a strong team culture. Rebecca also mentors other managers and business owners to help them improve their own managerial skills.

top managers

Individuals who are responsible for making decisions about the direction of the organisation, and for establishing policies that affect all organisational members

middle managers

Individuals who are typically responsible for translating goals set by top managers into specific details and tactical plans that lower-level managers will ensure are carried out

front-line managers

Supervisors responsible for directing the day-to-day activities of non-managerial employees

team leaders

Individuals who are responsible for managing and facilitating the activities of a work team

Classic concepts in today's organisations: Management: Is there one best way to do a job?

The terms *management* and *manager* are actually centuries old.[3] One source says that 'manager' originated in 1588 to describe one who manages. Its specific use to mean a person who oversees a business or a public organisation is believed to have originated in the early part of the 18th century. However, used in the way we're defining 'management' and 'manager', in terms of overseeing and directing organisational members, the terms are more appropriately dated to the early 20th century. 'Management' was first popularised by Frederick Winslow Taylor. Taylor is a 'biggie' in management history, so let's look at his contributions to how management is practised today.

- In 1911, Taylor's book *Principles of Scientific Management* took the business world by storm. His ideas spread in the United States and to other countries, where they inspired other theories.
- Why? His theory of **scientific management** argued for the use of scientific methods to define the '*one best way*'

for a job to be done.

- As a mechanical engineer in Pennsylvania steel companies, Taylor was continually appalled by workers' inefficient work practices. He observed:
  - employees using vastly different techniques to perform the same task and often 'taking it easy' on the job
  - few, if any, existing work standards
  - workers placed in jobs with little or no concern for matching their abilities and aptitudes with the tasks they were required to do.
- The result: worker output was only about *one-third* of what Taylor thought was possible.
- Taylor's remedy: applying the scientific method to manual shop-floor jobs. The result: phenomenal increases in worker output and efficiency – in the range of 200 per cent or more!
- Because of his work, Taylor is known as the 'father' of scientific management.

scientific management

The use of scientific methods to define the 'one best way' for a job to be done

Discuss this

- What would a ‘Taylor’ workplace be like?
- How have Taylor’s views contributed to how management is practised today?

What is management?

Learning outcome 1.2 Define management.

Management is the process of getting things done, efficiently and effectively, with and through other people. We need to look more closely at some key words in this definition.

management
The process of getting things done, efficiently and effectively, with and through other people

A **process** is a set of ongoing and interrelated activities. In our definition of management, the term refers to the primary activities or functions that managers perform – functions that we'll discuss in more detail in the next section.

process
A set of ongoing and interrelated activities required to achieve particular outcomes

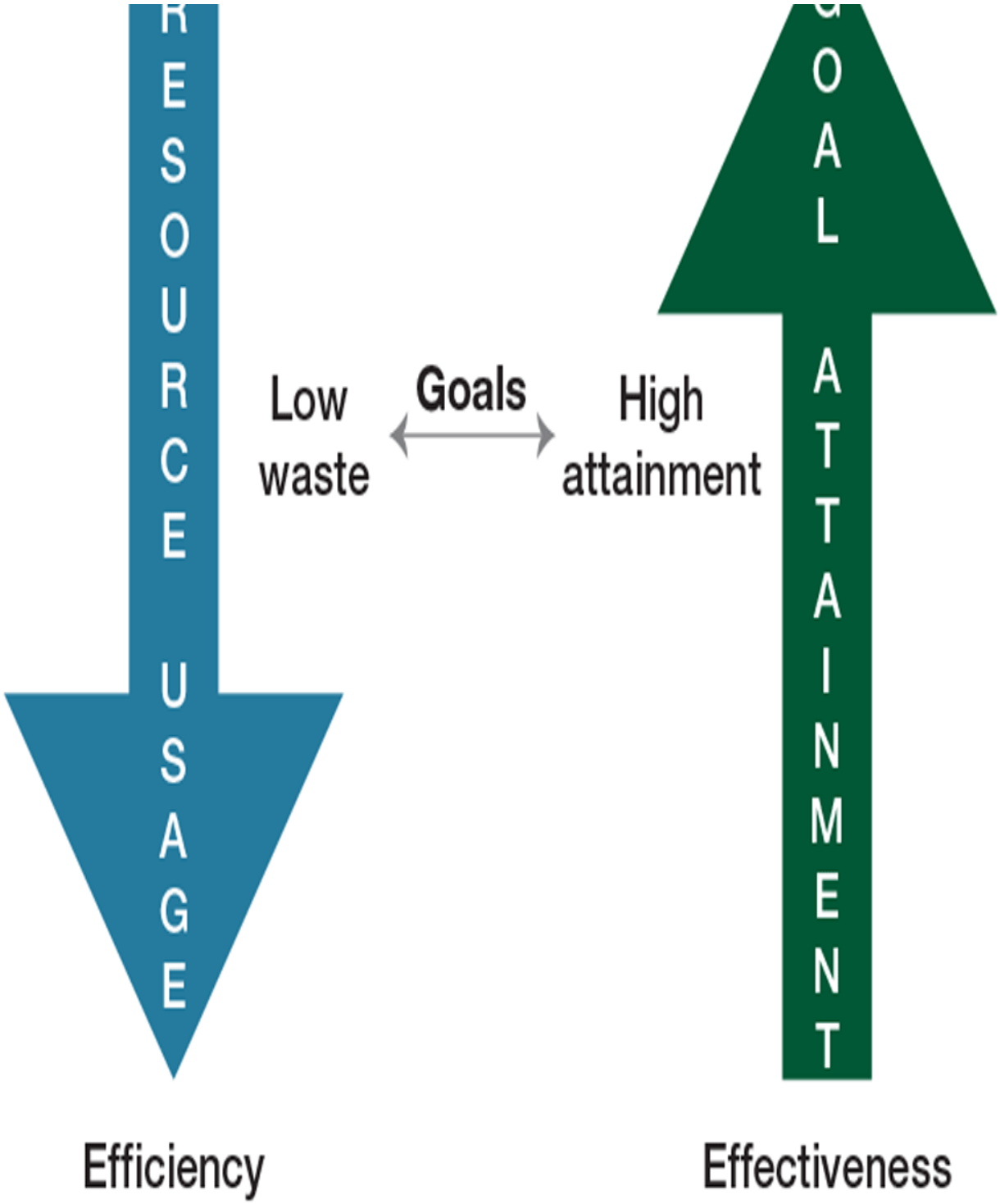
Efficiency is achieved by doing a task correctly ('doing things right') and getting the most output from the least amount of inputs. Because managers deal with scarce inputs – including resources such as people, money and equipment – they're concerned with the efficient use of those resources. Managers want to minimise resource usage and resource costs.

efficiency

Doing things right, or getting the most output from the least amount of inputs

Effectiveness is achieved by doing the right things – that is, doing those work tasks that help the organisation to reach its goals. Whereas efficiency is concerned with the *means* of getting things done, effectiveness is concerned with the *ends*, or the attainment of organisational goals (see **Figure 1.3**).

Figure 1.3 Efficiency and effectiveness


RESOURCE USAGE
Low waste
Goals
High attainment
GOAL ATTAINMENT
Efficiency
Effectiveness

effectiveness

Doing the right things, or completing activities so that organisational goals are attained

Good management is concerned with attaining goals (effectiveness) and doing so as efficiently as possible. Poor management is most often due to both inefficiency and ineffectiveness, or to effectiveness achieved without regard for efficiency. Focusing on just effectiveness can waste time, energy and other resources. For example, Hewlett Packard Enterprise (formerly Hewlett-Packard) could focus solely on effectiveness in producing sophisticated and longer-lasting cartridges for its laser printers. If, however, the company focused only on effectiveness, it might generate such high labour and input costs that it might go broke or have to charge such high prices that it couldn't compete against rival companies. Conversely, if a call centre focused exclusively on efficiency, it might deal with calls quickly but provide poor service, leading to dissatisfied customers.

But good management achieves a lot more than that! What managers do, and how they do it, can profoundly affect their organisations and the people within them. The way an organisation manages its people can determine its financial performance[4] and have a significant impact on employees' mental and emotional health.[5]

> Good management = **What you do** AND **how you do it**.

What do managers do?

Learning outcome 1.3 Describe what managers do.

Every organisation has a slightly different job to do, and so does every manager. But managers do share some common job elements, whether they are the foreperson of a construction company or the CEO of Westpac. Management researchers have proposed three approaches that help in describing what managers do: functions, roles and skills. Let’s look at each of these in turn.

What are the four management functions?

According to the functions approach, managers perform certain activities or functions as they direct and oversee others' work. The functions approach was first proposed in the early part of the 20th century by a French industrialist, Henri Fayol, who suggested that all managers perform five management activities: plan, organise, command, coordinate and control.[6] Today, these management functions have been condensed to four: planning, organising, leading and controlling (see **Figure 1.4**). Let's look briefly at each function.

Figure 1.4 Four management functions

Organisations exist to achieve some purpose. Through planning, managers define that purpose and decide how to achieve it. **Planning** includes defining goals, establishing strategy and developing plans to coordinate activities. Planning ensures that the work to be done is kept in proper focus and that organisational members keep their attention on what is most important.

planning

Includes defining goals, establishing strategy and developing plans to coordinate activities

Managers are also responsible for arranging and structuring work to accomplish the organisation's goals. This function is called **organising**. Organising includes determining what tasks are to be done and by whom, how tasks are to be grouped, who reports to whom and where decisions are to be made.

organising

Includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom and where decisions are to be made

Leading is the part of a manager's job that involves directing and coordinating the work activities of others. When managers motivate employees, direct the activities of others, select the most effective communication channel or resolve conflicts among organisational members, they are leading.

leading

Includes motivating employees, directing the activities of others, selecting the most effective communication channel and resolving conflicts

The fourth and final management function is **controlling**, which involves monitoring, comparing and correcting work performance. After the goals are set, the plans formulated, the structural arrangements determined and the people hired, trained and motivated, there has to be some evaluation to see if things are going as planned. Any significant deviations will require that the manager gets the work back on track.

controlling

The process of monitoring performance, comparing it with goals and correcting any significant deviations

The functions approach is useful for understanding the fundamentals of management. Its continued popularity is largely because 'the classical functions provide clear and discrete methods of classifying

the thousands of activities that managers carry out and the techniques they use in terms of the functions they perform for the achievement of goals'.[7] But to understand *how* managers perform these functions, let's consider the roles that managers play in organisations.

What are management roles?

Our understanding of the roles that managers play in organisations comes from the research conducted by Henry Mintzberg. In the late 1960s, Mintzberg did an empirical study of five chief executives at work.[8] His discoveries challenged long-held notions about the manager's job. For example, at the time, the predominant view was that managers were reflective thinkers who carefully and systematically processed information before making decisions. However, Mintzberg found that the managers he studied had little time for reflective thinking because they encountered constant interruptions and their activities often lasted less than nine minutes. Mintzberg also developed a categorisation scheme for defining what managers do based on the managerial roles they use at work. These **managerial roles** consist of the specific categories of managerial actions or behaviours expected of a manager. (Think of the different roles you play – such as student, employee, volunteer, sports team member, sibling and so forth – and the different things you're expected to do in those roles.)

managerial roles

Specific categories of managerial behaviour; often grouped under three primary headings:

interpersonal relationships, transfer of information and decision making

Mintzberg concluded that managers perform 10 different but interrelated roles. These roles, as shown in **Table 1.1**, are grouped around interpersonal relationships, the transfer of information and decision making. The **interpersonal roles** are ones that involve people (subordinates and persons outside the organisation) and other duties that are ceremonial and symbolic in nature. The **informational roles** involve collecting, receiving and disseminating information. Finally, the **decisional roles** entail making decisions or choices.

Table 1.1 Mintzberg's managerial roles

Source: Based on H. Mintzberg, The Nature of Managerial Work (New York: Harper & Row, 1973), pp. 93–4.

interpersonal roles

Involve people (subordinates and persons outside the organisation) and other duties that are ceremonial and symbolic in nature

informational roles

Involve collecting, receiving and disseminating information

decisional roles

Entail making decisions or choices

Mintzberg's roles approach complements the functions view of management by offering additional insight into what managers do. The roles approach demonstrates that as managers perform each function, they interact with a variety of different people and adopt different roles in those relationships. Understanding how the performance of different roles contributes to each managerial function provides a more detailed perspective on what successful management entails. For example, a manager engaged in planning activities might initially adopt the liaison and monitor roles in order to acquire information on which they base their plans. Once a course of action has been decided, the manager might adopt the leader and disseminator roles as they communicate the plan to employees. Mintzberg has since completed another intensive study of managers at work and concluded: 'Basically, managing is about influencing action. It's about helping organizations and units to get things done,

which means action.'[9] Based on his observations, Mintzberg said managers do this in three ways: (1) by managing actions directly (e.g. negotiating contracts, managing projects, etc.); (2) by managing people who take action (e.g. motivating them, building teams, enhancing the organisation's culture, etc.); or (3) by managing information that propels people to take action (e.g. using budgets, goals, task delegation, etc.). Mintzberg's newest study gives us additional insights into the manager's job, adding to our understanding of what it is that managers do and how adopting the roles we have described helps managers to influence action in their organisations.

What characteristics do managers need?

The final way we'll describe what managers do is to look at the characteristics they need in order to manage. One way to define managerial characteristics is in terms of the competencies managers need. Research has identified nine managerial competencies: *traditional functions* (encompassing tasks such as decision making, short-term planning, goal setting, monitoring, team building, etc.); *task orientation* (including elements such as urgency, decisiveness, initiative, etc.); *personal orientation* (including things such as compassion, assertiveness, politeness, customer focus, etc.); *dependability* (involving aspects such as personal responsibility, trustworthiness, loyalty, professionalism, etc.); *open-mindedness* (encompassing elements such as tolerance, adaptability, creative thinking, etc.); *emotional control* (including both resilience and stress management); *communication* (including aspects such as listening, oral communication, public presentation, etc.); *developing self and others* (including tasks such as performance assessment, self-development, providing developmental feedback, etc.); and *occupational acumen and concerns* (involving aspects such as technical proficiency, being concerned with quality and quantity, financial concern, etc.).[10]

Another way to think about managerial characteristics is to consider the skills and drive that managers need to have to perform a managerial role. Robert L. Katz and others have proposed that managers must possess and use four critical management skills in managing.[11] **Conceptual skills** are the skills managers use to analyse and diagnose complex situations. They help managers to see how things fit together and facilitate making good decisions. **Interpersonal skills** are those skills involved with working well with other people, both individually and in groups. Because managers get things done with and through other people, they must have good interpersonal skills to communicate, motivate, mentor and delegate. Additionally, all managers need **technical skills**, which are the job-specific knowledge and techniques needed to perform work tasks. These abilities are based on specialised knowledge or expertise. For top-level managers, these abilities tend to be related to knowledge of the industry and a general understanding of the organisation's processes and products. For middle- and lower-level managers, these abilities are related to the specialised knowledge required in the areas where they work – finance, human resources, marketing, computer systems, manufacturing, information technology and so forth. Finally, managers need and use **political skills** to build a power base and establish the right connections. Political skills represent the ability to change one's situation by influencing others at work, with the overall objective of attaining valued goals from the situation.[12] Organisations are political arenas in which people compete for resources. Managers who have and know how to use political skills tend to be better at getting resources for their groups than those who don't.

conceptual skills

A manager’s ability to analyse and diagnose complex situations

interpersonal skills

A manager’s ability to work with, understand, mentor and motivate others, both individually and in groups

technical skills

Job-specific knowledge and techniques needed to perform work tasks

political skills

A manager’s ability to build a power base and establish the right connections

The importance of different managerial skills changes as managers progress to higher levels of the organisation.[13] Technical skills have higher importance for a lower-level manager, as they are working close to the physical operations of the organisation. Conceptual skills have higher importance for high-level managers, who require the ability to conceptualise unknown situations and visualise how their decisions will affect the organisation. Interpersonal skills are very important at all levels, because management always involves working with others. By extension, political skills are also valuable at all managerial levels for acquiring resources and support.

Another characteristics that managers need is the drive or **motivation to manage**, which is an internal force that drives people to become a manager, enjoy being one, and perform well in managerial positions, especially in large hierarchical organisations.[14] Motivation to manage has six components: (1) attitudes to superiors, (2) desire to engage in competitive situations, (3) desire to exercise power over subordinates and direct their behaviour, (4) desire to behave assertively, (5) desire to engage in highly public activities, and (6) desire to organise administrative tasks. Motivation to manage influences how comfortably and how well individuals perform managerial roles. A person may have strong technical, interpersonal and conceptual skills, but a weak motivation to manage would make them unsuited to a managerial role.

motivation to manage

An internal force that drives people to become a manager, enjoy being one, and perform well in managerial positions

Is the manager's job universal?

The approaches we've detailed might lead you to think that what a manager does should be essentially the same whether they are a top-level executive or a front-line supervisor, in a corporation or a government agency; in a large corporation or a small business; or located in Melbourne, Australia, or Melbourne, Florida. Is that the case?

> Is a manager a manager, **no matter where or what they manage**?

Level in the organisation

Although a supervisor of the Genius Bar in an Apple Store may not do exactly the same things that Apple's CEO Tim Cook does, it doesn't mean that their jobs are inherently different. The differences are of degree and emphasis, but not of activity. All managers, regardless of level, make decisions. They do planning, organising, leading and controlling activities, but the amount of time they give to each activity isn't necessarily constant. For instance, as managers move up in the organisation, they do more planning and less direct overseeing of others. In addition, the content of the managerial activities changes with the manager's level. For example, as we'll demonstrate elsewhere, top managers are concerned with designing the overall

organisation’s structure, whereas lower-level managers focus on designing the jobs of individuals and work groups.

Jim Chapman, Sandy Hickson and Nathaniel Poynting are the founders of Nice Coffee Co., a social enterprise that sells Kenyan coffee beans and coffee machines in Australia so it can provide free food to school children studying in Kenya.[15] Jim, Sandy and Nathaniel manage their 'profit-for-purpose' enterprise in much the same way as other managers run for-profit organisations.

Photograph courtesy of Nice Coffee Co.

Size of organisation

Organisational size affects management by influencing the importance of different managerial roles. Organisational size can be defined using a number of measures, such as the number of employees, annual sales or total assets. For simplicity, we'll define organisational size in terms of the number of employees. According to the Australian Bureau of Statistics, a **small business** is one that employs between 5 and 19 people, a **medium-sized business** has between 20 and 199 employees, and a **large business** is one that employs at least 200 people.[16] Now to the question at hand: Is the job of managing a small business different from that of managing a large one? Yes. For example, the small business manager's most important role is that of spokesperson. They spend a great deal of time performing outwardly directed actions such as meeting with customers, arranging financing with bankers, searching for new

opportunities and stimulating change. In contrast, the most important concerns of a manager in a large organisation are directed internally – deciding which organisational units get what available resources and how much of them. Accordingly, the entrepreneurial role – looking for business opportunities and planning activities for performance improvement – appears to be least important to managers in large firms, especially among first-level and middle managers.

small business

An independent business that employs between 5 and 19 people

medium-sized business

An independent business that employs between 20 and 199 people

large business

An independent business that employs at least 200 people

Compared with a manager in a large organisation, a small business manager is more likely to be a generalist. Their job will combine the activities of a large corporation's chief executive with many of the day-to-day activities undertaken by a front-line supervisor. Moreover, the structure and formality that characterise a manager's job in a large organisation tend to give way to informality in small firms. Planning is less likely to be a carefully orchestrated ritual. The organisation's design will be less complex and structured, and control in the small business will rely more on direct observation than on sophisticated, computerised monitoring systems. Again, as with organisational level, we see differences in degree and emphasis but not in the activities that managers do. Managers in both small and large organisations perform essentially the same activities, but how they go about those activities and the proportion of time they spend on each will differ.

Profit versus not-for-profit

An organisation's profit orientation affects management by determining the focus of organisational activities on efficiency and effectiveness. Profit is the difference between an organisation's revenues and operating costs. Businesses are profit-oriented because they fund their operations using capital that investors such as company owners, shareholders and financial institutions provide in exchange for a share of future profits. Businesses generate profits by maximising the revenues they generate from sales (e.g. by charging higher prices for their products) and/or by minimising their operating costs. If a business cannot generate sufficient profits, it will eventually

become bankrupt, so profit determines the organisation's survival. Consequently, managers in profit-oriented businesses focus on efficiency in minimising costs and effectiveness in generating revenues so as to maximise profits.

Not-for-profit organisations, such as government agencies, schools, public hospitals, charities and community groups, have a different focus on efficiency and effectiveness because they don't rely on profits for survival. Not-for-profit organisations use funds provided by governments, sponsors or donors to provide goods and services such as health care, education and support to members of the community. Managers in not-for-profit organisations focus on efficiency in minimising costs and effectiveness in delivering services so as to be able to help as many members of the community as possible.

Management concepts and national borders

If managerial concepts were completely generic and universal, they would apply in any country in the world, regardless of economic, social, political or cultural differences. Studies that have compared managerial practices in different countries haven't found this to be the case. In the chapter on the external organisational environment, we'll examine some specific differences between countries and describe their effect on managing. At this point, it's important for you to understand that most of the concepts discussed in the following chapters primarily apply to Australia, New Zealand, the United States,

Canada, the United Kingdom and other English-speaking countries. Managers likely will have to modify these concepts if they want to apply them in India, China, Chile or other countries whose economic, political, social or cultural environments differ from those of the so-called free-market democracies.

A question of ethics: Being set up to fail?

- 26% of new managers feel they're unprepared to transition into management roles.
- 58% of new managers don't receive any training to help them make the transition.
- 48% of first-time managers fail in that transition.

Moving to a management position isn't easy, as these statistics indicate.[17]

Discuss this

- Does an organisation have an ethical responsibility to assist its new managers in their new positions? Why or why not?
- What could organisations do to make this transition easier?

What factors are reshaping and redefining management?

Learning outcome 1.4 Describe the factors that are reshaping and redefining management.

Welcome to the **new world of management**!

In today's world, managers are dealing with changing workplaces and workforces, changing technology and global uncertainties. Managers everywhere are dealing with fluid and changing circumstances, and *how* managers manage is changing as a result. Throughout the rest of this text, we'll be discussing these changes and how they're impacting the way managers plan, organise, lead and control. Here, we want to highlight six of these changes: the increasing importance of customers, innovation, diversity and inclusion, social media, sustainability, and the COVID-19 global pandemic.

Why are customers important to the manager's job?

John Chambers, a former CEO of Cisco Systems, liked to listen to voice mails forwarded to him from dissatisfied customers. 'Email would be more efficient,' he conceded, 'but I want to hear the emotion, I want to hear the frustration, I want to hear the caller's level of comfort with the strategy we're employing. I can't get that through email.'[18] A manager like Chambers understands the importance of customers. Organisations need customers because without them, most would cease to exist. Focusing on the customer was once thought to be the responsibility of marketing people. But now managers are recognising that delivering consistent high-quality customer service is essential and that employees are an important part of that equation.[19] In fact, in developed countries such as Australia, Germany and Japan, more than 70 per cent of the labour force works in customer service roles such as sales assistants, teachers, bartenders, nurses, receptionists, financial planners and bank tellers.[20] The implication is clear: they must create a customer-responsive organisation where employees are friendly and courteous, accessible, knowledgeable, prompt in responding to customer needs and willing to do what's necessary to please the customer.[21]

Why is innovation important to the manager’s job?

Success in business today demands innovation: doing things differently, exploring new territory and taking risks. And innovation isn’t just for high-tech or other technologically sophisticated organisations; innovative efforts are needed in all types, all levels, all areas and all sizes of organisations. In today’s challenging environment, innovation is critical. Managers not only need to be innovative personally; they must also encourage their employees to be innovative. That means understanding what, when, where, how and why it can be fostered and encouraged throughout their organisation. We’ll share stories of innovative practices and approaches throughout this text.

Why are diversity and inclusion important to the manager's job?

As we'll discuss more fully in the chapter on the external organisational environment, societies and workplaces are becoming increasingly diverse. This makes diversity management a critical job for today's manager. As one human resources (HR) expert described it, diversity is similar to finding people for a choir who have different musical backgrounds, vocal talents and abilities. To make that choir the best it can be, managers have to 'make sure that those different voices are heard and valued and that they contribute to the performance'.[22] That's where diversity management comes in. **Diversity management** includes managing anti-discrimination, equal opportunity and affirmative action so that all organisational members are treated with dignity and fairness.[23] It also involves creating a strong and positive diversity climate focused upon inclusion. **Inclusion** is the achievement of a work environment in which all individuals are treated fairly and respectfully, have equal opportunities and resources, and can contribute fully to the organisation's success.[24] It's making people feel like their strengths and characteristics are just as valuable – and valued – as everyone else's in the organisation. Managing diversity effectively is increasingly important to an organisation's relationships with employees, customers and a whole range of other stakeholders.

We'll explore how managers can do this successfully in the Managing for Diversity and Inclusion feature of each chapter.

diversity management

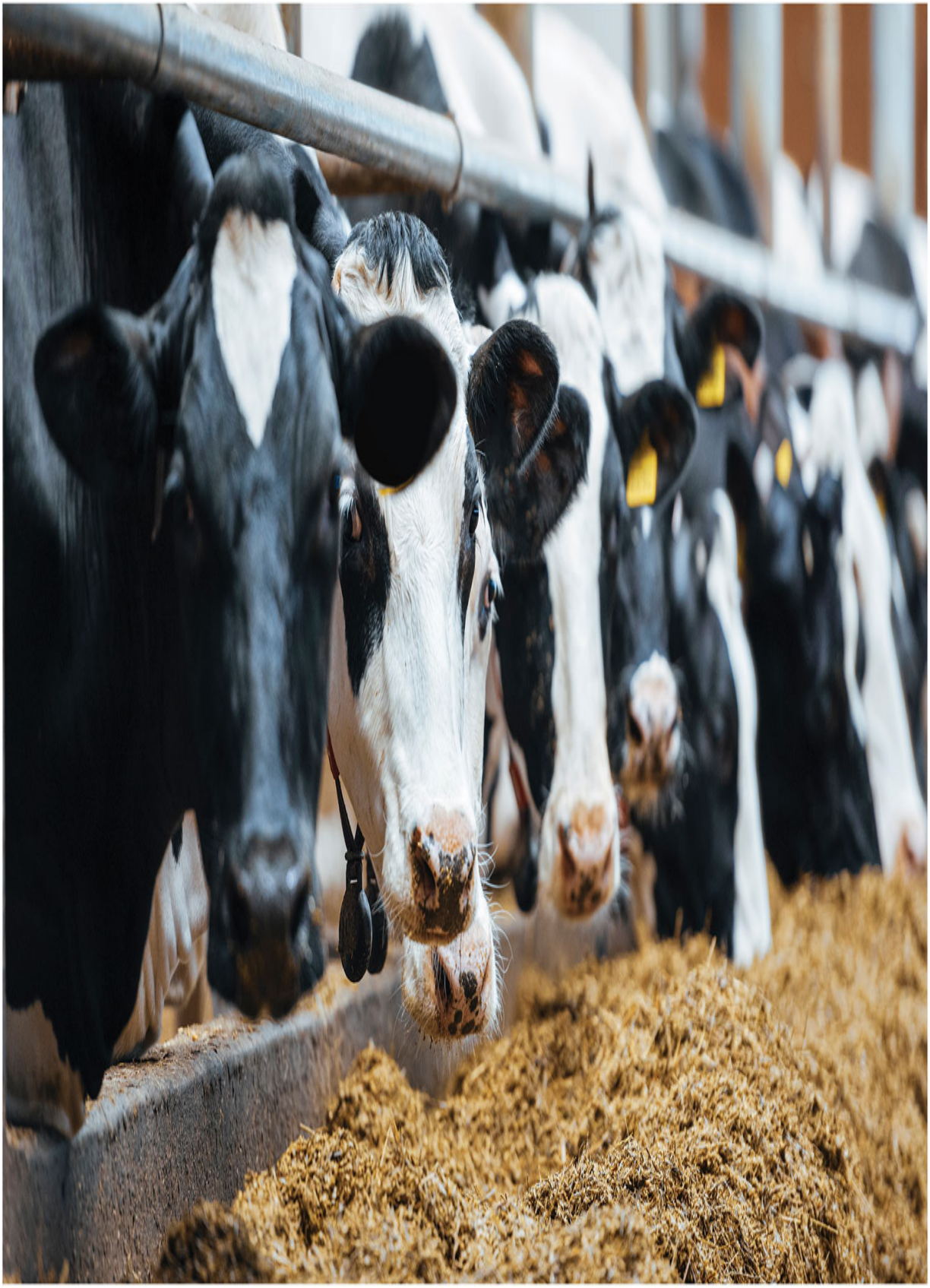
Creating a work environment focused on achieving inclusion for all organisational members, in which people are treated with dignity, equality and fairness, and have fair and equitable access to employment and professional development opportunities

inclusion

The achievement of a work environment in which all individuals are treated fairly and respectfully, have equal opportunities and resources, and can contribute fully to the organisation's success

Why are social media tools important to the manager's job?

In 2020, social platforms such as Facebook, Instagram, Twitter, YouTube, LinkedIn and others were being used by more than 3.6 billion people.[25] Such widespread usage of **social media** – forms of electronic communication through which users create online communities to share ideas, information, personal messages and other content – makes them important tools for managers, employees and organisations, enabling entirely new kinds of relationships with customers and employees. However, they have also put those relationships on public display, making it incredibly easy for disgruntled or dissatisfied employees and customers to tell the world why they're unhappy. This means that managers need to think more carefully than ever about how their actions are perceived by other people. Throughout this text, we'll look at how social media is impacting how managers manage, especially in the areas of human resource management, communication, teams and strategy.



Sam Elson is the founder of Sea Forest, an innovative Australian company that grows edible red seaweed. But don't expect to see it on a restaurant menu any time soon. Sea Forest actually grows its seaweed to feed to cows, because scientists in Australia and the US have discovered that feeding a small amount of edible seaweed to cows reduces their methane production by 80 per cent. And since livestock accounts for 10 per cent of Australia's total greenhouse gas emissions, that's a pretty big deal![26]

Valdis Skudre/Shutterstock.com

social media

Forms of electronic communication through which users create online communities to share ideas, information, personal messages and other content

Why is sustainability important to the manager's job?

Managers and organisations need to focus on sustainability because of growing expectations that they will responsibly manage the impact of their activities on the environments in which they operate. Although 'sustainability' means different things to different people, the World Business Council for Sustainable Development describes a scenario where all Earth's inhabitants can live well with adequate resources.[27] From a business perspective, **sustainability** has been defined as a company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental and social opportunities into its business strategies.[28] Managers are discovering that running an organisation in a more sustainable way will mean making informed business decisions based on (1) communicating openly with various stakeholders and understanding their requirements, and (2) factoring economic, environmental and social aspects into how they pursue their business goals. Managing for sustainability will require fundamental shifts for many organisations and managers about what they do and how they do it. These shifts are affecting many aspects of management and we'll explore them throughout the text in the Managing for Sustainability boxes.

sustainability

A company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental and social opportunities into its business strategies

Why is the COVID-19 pandemic important to the manager's job?

The global COVID-19 pandemic has been the largest, fastest and most profound force for change that most managers and organisations have ever experienced. The issues and challenges that have resulted from the pandemic have forced people and organisations across the world to change what they do and how they do it. Along the way, they have also created huge and valuable opportunities to do new things, to do old things in new ways, and to rethink many aspects of management. We'll explore these throughout the text in the Rethinking Management in a Global Crisis feature.

Why study management?

Learning outcome 1.5 Explain why it's important to study management.

We'll finish this chapter by examining three key reasons why studying management is going to be worth your time. The first reason is that, whatever you do in your career, you'll work in organisations and either manage or be managed. Talented managers can communicate well and build genuine relationships with their staff, provide clear guidance about performance expectations and whether these are being met, and help employees build on their strengths. When their managers manage effectively, staff feel connected and enthusiastic about their jobs, which improves indvidual performance and organisational competitiveness.[29] When you understand what management is and how it is practised, you'll gain more insights into the way your boss and other employees behave, and you'll be able to make sure that your influence as a manager is positive.

The second reason is that understanding management will help you to differentiate between organisations that are well managed and those that are poorly managed when you're deciding who to deal with and who to work for. When you deal with a well-managed organisation, you're likely to have a far better experience of being a customer or an employee. So, the more you learn about management, the better

choices you'll make in terms of the roles and organisations you experience in your career.

The third reason is that studying management will help you to enhance your professionalism. **Professionalism** is how you conduct yourself in your workplace – your attitudes, actions and behaviours. It affects how seriously people take you at work, the employment and promotion opportunities you get offered, and whether your boss and colleagues view you as an asset to your team and your organisation. Being professional means developing and displaying qualities and behaviours[30] such as being focused, punctual, attentive, diligent and humble, and developing good interpersonal skills and emotional intelligence. Conversely, being disrespectful, unreliable and irresponsible, failing to honour and deliver on your commitments to your organisation and other people, and being a poor communicator are considered 'unprofessional' qualities and behaviours.[31] Throughout this text, we explore many more behaviours and qualities that managers use in order to behave in professional ways and to encourage other people to do so.

professionalism

How you conduct yourself in your workplace – your attitudes, actions and behaviours

Review

Chapter 1 summary

1.1 Identify who managers are and where they work.
Managers are individuals who work in an organisation directing and overseeing the activities of other people. Managers are usually classified as top, middle or front-line. Organisations, where managers work, have four characteristics: goals, people, a deliberate structure and an operations system.

1.2 Define management.
Management is the process of getting things done, efficiently and effectively, with and through other people. Efficiency is achieved by 'doing things right' – doing a task correctly and getting the most output from the least amount of inputs. Effectiveness is achieved by 'doing the right things' – by doing those work tasks that help the organisation to reach its goals.

1.3 Describe what managers do.
What managers do can be described using three approaches: functions, roles and skills/competencies. The functions approach says that managers perform four functions: planning, organising, leading and controlling. Mintzberg's roles approach says that what managers do is based on the 10 roles they use at work, which are grouped around interpersonal relationships, the transfer of information and decision making. The skills/competencies approach looks at what managers do in terms of the skills and competencies

they need and use. Four critical management skills are conceptual, interpersonal, technical and political. Additional managerial competencies include aspects such as dependability, personal orientation, emotional control and communication. All managers plan, organise, lead and control, although how they do these activities and how often they do them may vary according to their level in the organisation, whether it is profit or not-for-profit, the size of the organisation and its geographic location.

1.4 Describe the factors that are reshaping and redefining management.

In today's world, managers are dealing with changing workplaces, a changing workforce, global economic and political uncertainties, and changing technology. Five areas of critical importance to managers are: delivering high-quality customer service, fostering innovation, managing diversity and fostering inclusion, using social media efficiently and effectively, and recognising how sustainability contributes to an organisation's effectiveness.

1.5 Explain why it's important to study management.

Management is fundamentally about influencing human behaviour in order to achieve organisational goals. Formally studying management will help you to build a broader knowledge of what management entails and to develop a 'toolkit' of approaches you can apply in order to manage in different situations.

Discussion questions

1.1 What is an organisation, and what characteristics do organisations share?
1.2 How do managers differ from non-managerial employees?
1.3 Why do managers need to focus on both efficiency and effectiveness?
1.4 Interview a manager you know and ask them to explain what they do. What sorts of activities do they mention? Which of Mintzberg's roles do they relate to?
1.5 Using any of the popular business periodicals (such as *Australian Financial Review*), find examples of managers doing each of the four management functions. Write a description and explain how these are examples of that function.
1.6 Review the six components of motivation to manage. How does each component help a manager to do their job successfully?
1.7 Why is it important that managers think about the environmental, economic and social aspects of sustainability of their organisation's actions?
1.8 Identify two ways in which social media makes a manager's job easier to do, and two ways in which it makes their job harder.
1.9 Think about the most 'professional' person you know. What behaviours and qualities make them seem 'professional' to

you?

1.10 Choose an organisation and describe three ways in which it has been affected by the COVID-19 pandemic. If you were a manager in that organisation, how would you have handled those issues?

Management skills spotlight: Becoming politically adept

Anyone who has had much work experience knows that organisational politics exist everywhere. That is, people try to influence the distribution of advantages and disadvantages within their organisation in their favour. Those who understand organisational politics typically thrive. Those who don't, regardless of how good their actual job skills are, often suffer by receiving less positive performance reviews, fewer promotions and smaller salary increases. If you want to succeed as a manager, it helps to be politically adept. Research has shown that people differ in their political skills.[32] Those who are politically skilled are more effective in their use of influence tactics. Political skill also appears to be more effective when the stakes are high. Finally, politically skilled individuals are able to exert their influence without others detecting it, which is important in being effective so that you're not labelled as playing politics. A person's political skill is determined by their networking ability, interpersonal influence, social astuteness and apparent sincerity.

Experiential exercise

As we explained in this chapter, scientific management and the notion that there can be ‘one best way’ to do a job is a cornerstone of management theory. In this exercise, you’re going to see how these principles can affect how managers and organisations operate.

1. Choose a task you do regularly (e.g. laundry, grocery shopping, studying for exams, etc.). As you do it, write down every single action you take.
2. Now examine each step in your list. What activities could be combined or eliminated? Write out the new, ‘best way’ to do this task.
3. Try the scientifically managed way! See if you become more efficient – keeping in mind that it isn’t easy to change old habits.
4. Reflect on your experiences.
    a. Describe what occurred when you wrote down every single step of the activity. Were you surprised at how many steps it took to do the activity? Were there any steps you hadn’t realised you actually took when you did it?
    b. Interpret your experience of using the principles of efficiency and scientific management. How did you determine which steps of the activity should be kept, and which ones should be cut out?

c. Evaluate your experience: what did you learn from the experience about applying a scientific approach to the execution of a task? How useful was it in helping you to be more efficient?
d. How could you apply your insights in the future? What would you do differently next time you decide you want to be able to do something more efficiently?

Case application: Learning to ‘walk the walk’

Moving into a managerial role brings a lot of new challenges, lessons and insights.[33] So, what do you need to learn to do when you become a manager for the first time? Chi Ngo became manager of a team of 10 people at age 23 and says that being a manager early in your career can pose particular challenges. Her advice is to *focus on justifying people’s faith in you.* If people look down on you because you’re young, focus on doing the job to the best of your ability. Remember: you were given the position because people were already convinced that you could do the job well and have faith that you will perform satisfactorily.

Similarly, y*ou don’t have to have all the answers.* When members of your team bring you questions you can’t answer, use it as an opportunity to learn and then pass your new knowledge back to your team. They’ll then trust both you and your answers.

Look after your team, and results will follow. Your role is to protect your team from unreasonable demands and pressures. Be prepared to push back on their behalf. Stakeholders may

not love it, but your team will be happier, more productive and more committed.

Establish a team culture of being constructive and supportive, and of treating people how they want to be treated. Building cultural norms and practices of sharing ideas, voicing concerns, challenging each other respectfully to do better, and offering praise helps your team to grow, develop and perform well individually and together, especially if you communicate that feedback and praise in the ways people prefer to receive it.

According to Florence Stone of the American Management Association, a lot of first-time managers give vague instructions about assignments, and dodge the hard conversations required when people don't perform as needed. So, be clear about what you want staff to do, and follow up on those expectations. When they meet or exceed your expectations, make sure you recognise and reward that! When they don't meet them, don't just do the job yourself: sit down with them, talk about where things have gone wrong, and explain how they need to be done differently.

Moving into a top managerial position brings a whole lot more learning, even for people with a lot of management experience. When Roman Stanek became CEO of software company NetBeans, he learnt it was important to c*heck assumptions.* When a major competitor offered to buy his company, Stanek thought his team could manage the acquisition process on top of their regular duties – until he

discovered the other company had a team of over 100 people working on it!

When you learn a good lesson, make it a rule. As the NetBeans acquisition contract was being worked out, Stanek realised that the teams involved were constantly fighting via email over the wording of the contract, causing delays and threatening to bring the whole deal undone. When he brought them together in person, they worked things out and saved the deal. Now, Stanek's rule is that any project team must meet in person early in their project because the personal connections they form will help them to deal with problems later on.

Professor Linda Hill, from Harvard Business School, has studied managers at many levels and warns that when you're a CEO or managing director, *you deal with far more bad news than good*! That's because people bring you the problems they can't (or don't want to) handle. So, top managers spend a lot of time dealing with complex problems that have high stakes and may affect the whole organisation, and for which there are no easy answers!

Similarly, Autumn Manning, CEO of employee engagement firm YouEarned It, says one of her biggest lessons was: '*It's your call, and your responsibility*.' Top managers need to be prepared to make decisions and to stand by them, even when those decisions are going to be unpopular. But you can still use help! When Autumn has to make decisions about cash flow, she confers with her chief operating officer, which helps her to build confidence in her decision.

Discussion questions

1.11 What kinds of adjustments do you think people have to make when they switch from being a non-managerial employee to being a manager?

1.12 Pick one of the lessons detailed in the case study. How do you think following that lesson would help you to be efficient or effective as a manager?

1.13 Which managerial characteristics do each of these managerial lessons relate to?

1.14 Pick one of the factors reshaping contemporary management. If you were a manager, which of the lessons learnt by the managers in this case study would you use to help you deal with that factor? How do you think it would help you do that?

Running case: Holiday home helpers: Motivated to make a difference

At 8.30 am on Mia's first day as an operations manager at Holiday Home Helpers (HHH), she had a meeting with the company's founder and CEO, Skylar.

'Good morning, Mia' said Skylar. 'I thought we could focus, this week, on getting you familiar with how the company works and what your role will entail. HHH is a national company. We currently operate in every state capital and in a number of regional areas that are particularly popular tourism destinations. These include Byron Bay in NSW, the Great Ocean Road in Victoria, the Adelaide Hills, the Margaret River wine region in Western Australia, and Noosa in Queensland. Our main business is cleaning and support services for people who own holiday homes that they rent out as tourist accommodation. Most of our clients list their properties through Airbnb; some also list through holiday accommodation services such as Stayz and **Booking.com**.

'In your role as a regional manager, you'll report to me and the other members of the top management team. Our goal as a

company is to provide excellent service to our clients. That includes helping them to provide excellent service to their guests, and delivering value for money. So, we expect you to focus on how effectively and efficiently your team is achieving that. What ideas do you have so far about how you'll approach this role?'

'Well,' said Mia. 'My first priority is to build my understanding of how HHH operates as a company and within this region. And how it could do that in the future. While running my own Airbnb for the last few years, I've become an active member of the local tourism operators industry association and the local chamber of commerce, and both those links are going to be really useful for learning about developments that could affect HHH.'

'And what do you think will be the next big issue for businesses like us?' asked Skylar.

'Sustainability,' said Mia. 'Accommodation and cleaning are areas with huge potential to improve waste management and environmental impact. And if we're smart about how we go about this, we can make it part of a better guest experience and a better employment experience. Our staff will be excited about what we're doing, and they'll be proud to be part of it.'

'And how are you planning to engage with your team?' asked Skylar.

'Establish my credibility,' said Mia. 'Let them know I ran housekeeping teams in hotels, but I also worked *on*

housekeeping teams as well. They need to be confident, if they tell me about challenges they're having when cleaning properties or ordering supplies, that I know what they're talking about! They might be a bit intimidated to know that I've worked at 6-star resorts like Palazzo Versace on the Gold Coast and Sapphire in Tasmania, but I'm hoping that will give them confidence that I'll know great-quality work when I see it and I'll be able to bring in new ideas about making our services even better.

'But I need to build credibility as a listener, too. I need to get to know my team members and to understand what each of them is bringing to the company. And what *aren't* they bringing to the table yet? What ideas do they have that they haven't shared with us? How could we improve their work environment? What's stopping them from doing better and having a better experience of working for us? And what about our clients? Why are they with us? What could we do better? What are guests saying in their online reviews about the properties we manage? How could we help our clients get even better reviews in the future?'

'These are excellent questions,' said Skylar. 'I look forward to hearing what the answers turn out to be. Good luck!'

Discussion questions

1.15 If Mia wanted to improve both efficiency and effectiveness at HHH, what areas could she focus on?
1.16 What level of manager is Mia?

1.17 Which of Mintzberg's managerial roles will Mia be performing?

1.18 Which of the factors reshaping management will Mia need to focus on in her new role?

Endnotes

1 D. Kerr, 'Uber's U-Turn: How the New CEO Is Cleaning House after Scandals and Lawsuits', *CNet*, 27 April 2018; M. Isaac, 'With Uber's IPO Dara Khosrowshahi is Taking Travis Kalanick's Company Public', *New York Times*, 3 May 2019; J. Bort and B. Gilbert, 'The Amazing Life of Uber CEO Dara Khosrowshahi – from Refugee to Text Superstar and a Huge IPO', *Tech Insider*, 29 August 2017; and 'Dara Khosrowshahi', **https://www.uber.com/en-AU/newsroom/leadership/dara-khosrowshahi/**, accessed 5 November 2020.

2 'Rebecca Clare', *ClinicMastery.com*, **https://www.clinicmastery.com/team/rebecca-clare/**, accessed 21 September 2020; and 'Rebecca Clare – PhysioWest, 2020 Telstra Emerging Leader Award', **https://www.telstrabusinesswomensawards.com/winners-and-finalists**, accessed 21 September 2020.

3 Classic Concepts in Today's Organisations box based on **Dictionary.com**, based on the Random House Dictionary, © Random House, Inc. 2009, **http://dictionary.reference.com/browse/manage**; Online Etymology Dictionary, **www.etymonline.com**, accessed 5 June 2009; P. F. Drucker, *Management: Revised Edition* (New York: HarperCollins Publishers, 2008); and F. W. Taylor, *Principles of Scientific Management* (New York: Harper, 1911), p. 44. For other information on Taylor, see S. Wagner-Tsukamoto, 'An Institutional Economic Reconstruction of Scientific Management: On the Lost Theoretical Logic of Taylorism', *Academy of Management*

Review, January 2007, pp. 105–17; R. Kanigel, *The One Best Way: Frederick Winslow Taylor and the Enigma of Efficiency* (New York: Viking, 1997); and M. Banta, *Taylored Lives: Narrative Productions in the Age of Taylor, Veblen, and Ford* (Chicago: University of Chicago Press, 1993).

4 'WorkUSA® 2004/2005: Effective Employees Drive Financial Results', Watson Wyatt Worldwide, Washington, DC.

5 See, for example, K. Sparks, B. Faragher and C. L. Cooper, 'Well-Being and Occupational Health in the 21st Century Workplace', *Journal of Occupational and Organizational Psychology*, vol. 74, no. 4 (2001), pp. 489–509; and J. Kuoppala, A. Lamminpää, J. Liira and H. Vainio, 'Leadership, Job Well-Being, and Health Effects: A Systematic Review and a Meta-Analysis', *Journal of Occupational & Environmental Medicine*, August 2008, pp. 904–5.

6 H. Fayol, *Industrial and General Administration* (Paris: Dunod, 1916).

7 S. J. Carroll and D. A. Gillen, 'Are the Classical Management Functions Useful in Describing Managerial Work?', *Academy of Management Review*, January 1987, p. 48.

8 H. Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973).

9 'What Managers Really Do', *Wall Street Journal*, 17 August 2009, p. R2; and H. Mintzberg, *Managing* (San Francisco: Berrett Koehler, 2009).

10 R. P. Tett, H. A. Guterman, A. Bleier and P. J. Murphy, 'Development and Content Validation of a "Hyperdimensional" Taxonomy of Managerial Competence', *Human Performance*, vol. 13, no. 3 (2000), pp. 205–51.

11 R. L. Katz, 'Skills of an Effective Administrator', *Harvard Business Review*, September 1974, pp. 901–2.
12 G. R. Ferris, D. C. Treadway, P. L. Perrewé, R. L. Brouer, C. Douglas and S. Lux, 'Political Skill in Organizations', *Journal of Management*, June 2007, pp. 290–329.
13 R. L. Katz, 'Skills of an Effective Administrator', *Harvard Business Review*, September 1974, pp. 901–2.
14 R. L. Katz, 'Skills of an Effective Administrator', *Harvard Business Review*, September 1974, pp. 901–2.
15 C-A Greenbank, 'Raise the Roof: How Three Aussies Are Helping Kenyan Kids Learn', *Sydney Morning Herald*, 8 December 2019, https://www.nicecoffee.org/our-story, accessed 21 September 2019.
16 Australian Bureau of Statistics, *Small Business in Australia, 2001*, Cat. No. 1321.0 (Canberra: Australian Bureau of Statistics, 2002).
17 A Question of Ethics box based on M. S. Plakhotnik and T. S. Rocco, 'A Succession Plan for First-Time Managers', *T&D*, December 2011, pp. 42–5; P. Brotherton, 'New Managers Feeling Lost at Sea', *T&D*, June 2011, p. 25; and 'How Do We Help a New Manager Manage?', *Workforce Management Online,* 16 June 2011.
18 F. F. Reichheld, 'Lead for Loyalty', *Harvard Business Review*, July–August 2001, p. 76.
19 See, for example, H. Ernst, W. D. Hoyer, M. Krafft and K. Krieger, 'Customer Relationship Management and Company Performance – The Mediating Role of New Product Performance', *Journal of the Academy of Marketing Science*, April 2011, pp. 290–306; J. P. Dotson and G. M. Allenby, 'Investigating the Strategic

Influence of Customer and Employee Satisfaction on Firm Financial Performance', *Marketing Science*, September–October 2010, pp. 895–908; R. Grewal, M. Chandrashekaran and A. V. Citrin, 'Customer Satisfaction Heterogeneity and Shareholder Value', *Journal of Marketing Research*, August 2010, pp. 612–26; M. Riemann, O. Schilke and J. S. Thomas, 'Customer Relationship Management and Firm Performance: The Mediating Role of Business Strategy', *Journal of the Academy of Marketing Science*, Summer 2010, pp. 326–46; and K. A. Eddleston, D. L. Kidder and B. E. Litzky, 'Who's the Boss? Contending with Competing Expectations from Customers and Management', *Academy of Management Executive*, November 2002, pp. 85–95.

20 Data from K. A. Eddleston, D. L. Kidder and B. E. Litzky, 'Who's the Boss? Contending with Competing Expectations from Customers and Management', *Academy of Management Executive*, November 2002, pp. 85–95; and *The CIA World Factbook 2012*.

21 See, for example, C. B. Blocker, D. J. Flint, M. B. Myers and S. F. Slater, 'Proactive Customer Orientation and Its Role for Creating Customer Value in Global Markets', *Journal of the Academy of Marketing Science*, April 2011, pp. 216–33; G. A. Gorry and R. A. Westbrook, 'Once More, with Feeling: Empathy and Technology in Customer Care', *Business Horizons*, March–April 2011, pp. 125–34; M. Dixon, K. Freeman and N. Toman, 'Stop Trying to Delight Your Customers', *Harvard Business Review*, July–August 2010, pp. 116–22; D. M. Mayer, M. G. Ehrhart and B. Schneider, 'Service Attribute Boundary Conditions of the Service Climate–Customer Satisfaction Link', *Academy of Management Journal*, October 2009, pp. 1034–50; B. A. Gutek, M. Groth and B. Cherry, 'Achieving Service Success

through Relationships and Enhanced Encounters', *Academy of Management Executive*, November 2002, pp. 132–44; K. A. Eddleston, D. L. Kidder and B. E. Litzky, 'Who's the Boss? Contending with Competing Expectations from Customers and Management', *Academy of Management Executive*, November 2002, pp. 85–95; S. D. Pugh, J. Dietz, J. W. Wiley and S. M. Brooks, 'Driving Service Effectiveness through Employee–Customer Linkages', *Academy of Management Executive*, November 2002, pp. 73–84; S. D. Pugh, 'Service with a Smile: Emotional Contagion in the Service Encounter', *Academy of Management Journal*, October 2001, pp. 1018–27; W. C. Tsai, 'Determinants and Consequences of Employee Displayed Positive Emotions', *Journal of Management*, vol. 27, no. 4 (2001), pp. 497–512; E. Naumann and D. W. Jackson, Jr, 'One More Time: How Do You Satisfy Customers?', *Business Horizons*, vol. 42, no. 3 (1999), pp. 71–6; and M. D. Hartline and O. C. Ferrell, 'The Management of Customer-Contact Service Employees: An Empirical Investigation', *Journal of Marketing*, October 1996, pp. 52–70.

22 K. Gurchiek, 'Get D&I Right', *HR Magazine*, April 2018, p. 39.

23 R. Kramar, T. Bartram, H. De Cieri, R. A. Noe, J. R. Hollenbeck, B. Gerhart and P. W. Wright, *Human Resource Management in Australia*, 5th edn (Sydney: McGraw-Hill, 2014), pp. 287–92.

24 SHRM, **www.shrm.org**.

25 J. Clement, 'Number of Global Social Network Users 2017–2025', **https://www.statista.com/statistics/278414/number-of-worldwide-social-network-users/**, 24 November 2020, accessed 30 December 2020.

26 H. Hogan and L. Smith, 'Dairy Cows in Tasmania Fed Seaweed to Fight Climate Change', *ABC News*, 23 July 2020.

27 Vision 2050 Report, 'Overview', **www.wbcsd.org/Overview/About-us/Vision2050**.

28 Symposium on Sustainability – Profiles in Leadership, New York, October 2001.

29 J. Harter and A. Adkins, 'Employees Want a Lot More From Their Managers', The Gallup Organization, **https://www.gallup.com/workplace/236570/employees-lot-managers.aspx**, accessed 2 January 2021; and R. J. Beck and J. Harter, 'Why Great Managers Are so Rare', The Gallup Organization, **https://www.gallup.com/workplace/231593/why-great-managers-rare.aspx**, accessed 2 January 2021.

30 2015 National Professionalism Survey: Recent College Graduates Report, Centre for Professional Excellence, New York College of Pennsylvania, **www.ycp.edu**.

31 2015 National Professionalism Survey: Recent College Graduates Report, Centre for Professional Excellence, New York College of Pennsylvania, **www.ycp.edu**.

32 S. Y. Todd, K. J. Harris, R. B. Harris and A. R. Wheeler, 'Career Success Implications of Political Skill', *Journal of Social Psychology*, June 2009, pp. 179–204; G. R. Ferris, D. C. Treadway, P. L. Perrewé, R. L. Brouer, C. Douglas and S. Lux, 'Political Skill in Organizations', *Journal of Management*, June 2007, pp. 290–329; K. J. Harris, K. M. Kacmar, S. Zivnuska and J. D. Shaw, 'The Impact of Political Skill on Impression Management Effectiveness', *Journal of Applied Psychology*, January 2007, pp. 278–85; and G. R. Ferris, D. C. Treadway, R. W. Kolodinsky, W. A. Hochwarter, C. J. Kacmar, C.

Douglas and D. D. Frink, 'Development and Validation of the Political Skill Inventory', *Journal of Management*, February 2005, pp. 126–52.

33 E. Braton, 'What Nobody Tells You about Becoming the Boss', *BBC Worklife*, 10 October 2016, **https://www.bbc.com/worklife/article/20161007-what-nobody-tells-you-about-becoming-the-boss**; C. Ngo, 'Lessons I Learned after Becoming a People Manager at 23', *TheStartUp*, 24 September 2019; and M. Krumrie, 'Expert Tips for First-Time Managers', https://www.monster.com/career-advice/article/expert-tips-for-first-time-managers, accessed 30 October 2020.

Chapter 2 How organisations operate

Fact or fiction?

Any organisation can succeed if it is operating efficiently and effectively.

Fiction

It is important that organisations operate efficiently and effectively. But ***it's also crucial that they operate with a clear focus on creating value for their customers***. And by that we don't mean focusing on what they *think* customers value; we mean *knowing* what customers *actually* value. In this chapter, we'll explain how organisations that understand this really well can then use their operations management and organisational culture to keep all of their members focused on providing that value and contributing to organisational success.

In the introductory chapter, we explained that all organisations have four characteristics: goals, people, a structure and an operations system. In this chapter, we'll explore how the organisation's culture and operations system determine the way in which it functions. First, we'll examine how an organisation's operating system determines *what* the organisation does to create the goods and services it sells to survive. We'll then consider how an organisation's culture helps to determine *how* it operates by defining its goals and how they should be achieved, including its goals for how its people behave. The following case study illustrates how these two organisational characteristics reinforce each other.

Learning outcomes

2.1 Define operations management and explain why its management is important.
2.2 Define value chain.
2.3 Define value chain management and describe what it entails.
2.4 Discuss contemporary issues that managers face when managing operations.
2.5 Define organisational culture and explain why it's important.

2.6 Describe how organisational culture affects managers.

The rusty windmill

Being responsive to customer preferences is critical to business success. So, if it turns out your customers want coffee and cake more than they want homewares, make more cake!

Tcygankova Olga/Shutterstock.com

The Rusty Windmill was created by Shareena Boyd in Leongatha, Victoria,[1] about 130 km from Melbourne. It was actually located in the back of Shareena's renovated cottage, and was originally intended to combine two different businesses: a café, and a furniture and homewares business. Her original plan was that the Rusty Windmill would primarily sell furniture and homewares; the café was just intended to attract people looking for 'coffee with a bit of cake' who would then hopefully see and want to buy the homewares. But when the café opened, it quickly became apparent that the business focus might need to be the other way around. 'We didn't even get the furniture displays up – the café just went nuts!' Shareena recalled.

The café's focus was on providing a friendly atmosphere where the locals felt at home, and 'the sort of food locals ask

for': healthy, and freshly prepared using local ingredients. The café was able to leverage its connections with local producers not only to source ingredients for the café, but also to be a distribution point for a local organic vegetable producer.

The Rusty Windmill's organisational culture was grounded in creativity, endeavour and empowerment. Shareena's approach was to give her team a broad definition of what the café was to provide, and then leave it to them to decide how to provide it. 'As an example, I say to my head chef that I want to see rustic, wholesome food, but I'm not going to tell you what to make.' That said, Shareena also believed in making sure her staff understood what she expected of them, so she put her policies and procedures in writing. 'It's so important to be very clear on what you're looking for from your team and how they fit in to the business. No one should be left guessing.' Likewise, she used the Rusty Windmill brand to 'project our personality through everything we do', which helped customers, employees and community members understand what the business was really about.

This approach worked well: Shareena originally intended to operate the café five days a week with four staff, but was soon trading seven days a week with a dozen staff, and looking to expand into offering a dinner service a few nights a week as well. The café was very popular with tourists visiting the area at weekends, but the backbone of its success was local trade and connections to the local community. Community connections was a big part of the Rusty Windmill's ethos, and

Shareena spent a lot of time and effort on building that connectedness. She sold tickets to local arts council events at the café and used the company's Facebook page to provide updates about local community events and developments. 'In a regional area, everyone wants to know what's going on – they don't want to be sold to!' she explained. This community connectedness also helped Shareena to stay flexible and adaptable as her business grew. 'In a small community, if you become rigid in your ideas, you're going to sink pretty quickly.'

What is operations management?

Learning outcome 2.1 Define operations management and explain why its management is important.

As we mentioned in the introductory chapter, the operation of every organisation involves some kind of transformation of inputs (e.g. raw materials, information, knowledge) into outputs (goods or services). The money that the organisation receives for producing these outputs (e.g. from customers, governments, donors and other stakeholders) then funds the purchase of new inputs, and so the organisation perpetuates itself. The term **operations management** refers to the design, operation and control of that **transformation process**, and of the operating system of the organisation. The system takes inputs – people, technology, capital, equipment, materials and information – and transforms them through various processes, procedures and work activities into finished goods and services. These transformation activities are found throughout the organisation. For example, staff in the marketing, finance and human resources (HR) departments convert outputs into sales, increased market share, high returns on investment, new and innovative products, motivated and committed employees, and reports about the organisation which are shared with stakeholders.

operations management

The design, operation and control of the operating system used to transform inputs into outputs

transformation process

The process that converts resources into finished goods and services

As a manager, you'll need to be familiar with operations management concepts because whatever area you'll be managing will have its own contribution to make to the organisation's system. You'll need to understand how every part of the system works in order to ensure that your area can make an efficient and effective contribution.

Why is operations management important?

> Operations management is crucial to **efficiency**, **effectiveness** and **competitiveness**.

Operations management is important to understand and do well, because it contributes to an organisation's strategy and influences its productivity. However, operations management is used differently by manufacturing and service organisations.

How does operations management differ between services and manufacturing organisations?

Manufacturing organisations uses their operations systems to create value by transforming inputs into finished goods. It is relatively easy to see how this is done, because the outputs are physical products such as ice cream, cars or mobile phones. For this reason, understanding the operations process in a manufacturing organisation should be fairly straightforward: we can just follow the pathway of a given input through the organisation and see how it is changed into an organisational product.

The transformation processes used by service organisations are less obvious, because services are not physical products. For instance, hospitals provide health-care services that help people manage their health; taxi companies provide transportation services that move people from one place to another; and electricians and plumbers ensure that homes and businesses have water and electricity. In some cases, the service being provided does produce a tangible physical output. For example, if a hairdresser cuts and styles your hair, you leave the salon with a new hairstyle. But if we just see the hairstyle, we won't know much about how the hairdresser created it: we can't tell just by looking what sorts of scissors, combs or blow-drying techniques they used to produce it. Similarly, if an electrician fixes your electricity supply, you'll know if you have power again, but you won't know how they fixed the supply, or whether they did a thorough repair or a 'quick fix'.

This difference between manufacturing and service organisations has two important implications. The first is that, because the transformation process in manufacturing organisations is easier to perceive, it can be easier to identify how productively it is working and how that productivity can potentially be improved. (We'll discuss this further in the next section.) The second implication is that because the transformation process in service organisations is harder to perceive, it can be harder for competitors to copy. This means that when a service organisation is able to use its transformation process to create a competitive advantage, it is more likely to be able to sustain that advantage even if rivals attempt to replicate its success.

How does operations management enhance productivity?

By using operations management to enhance efficiency, effectiveness and profitability, organisations are able to enhance their competitiveness in many ways. They can reduce their operating costs. They can offer more competitive pricing, and have more flexibility to adjust prices to market conditions. They can pay higher wages to attract and retain excellent employees. They can afford higher-quality materials, or buy more of them so as to secure supplies. When many organisations in a particular country or economy improve their productivity, this enhances economic growth and development.

For these reasons, organisations have looked at many and varied ways to enhance their operations and productivity, with some impressive results! For example, McDonald's Corporation has been able to drastically reduce the time taken to cook French fries from 210 seconds to 65 seconds.[2] Productivity is influenced by both people and operations variables. This means that, to improve productivity, organisations have to focus on both. W. Edwards Deming, a renowned quality expert, believed that managers, rather than workers, were the primary source of increased productivity. His

systems approach to continuously improving quality and responsiveness to customers became the cornerstones of the **total quality management (TQM)** philosophy.

total quality management

A managerial philosophy devoted to continual improvement and responding to customer needs and expectations

How does operations management contribute to an organisation's strategy?

Every organisation needs customers if it's going to survive and prosper. Even a not-for-profit organisation must have 'customers' who use its services or purchase its products. Customers want some kind of value from the goods and services they purchase or use, and these customers decide what that value is. For example, when you download the latest Ariana Grande single from Amazon Music, buy a new iPhone from the Apple website, purchase a wrap for lunch from Subway or get a massage from a massage therapist, you're exchanging money for the value you need or want to receive from those products: the entertainment value of the music, the usefulness and status of the phone, alleviation of lunchtime hunger, or relaxation and relief of muscle tension.

As we'll explain in more detail in the chapter on planning, organisations have two basic types of strategy they can use to compete for customers against rival organisations. The first is to offer products of superior quality for which they can charge a premium price. For organisations using this strategy, operations management offers ways to enhance the quality of inputs being used, develop new products with unique features that customers highly value, create

transformation processes that minimise wastage and enhance product quality, and get products to customers in ways that maximise customer value and convenience. The other strategy is to offer products that are the lowest acceptable quality, for which they charge a low price. For organisations using this strategy, operations management provides ways to source and utilise the cheapest possible input, maximise efficiency and minimise wastage in the transformation process, and get products to customers in ways that minimise cost and spoilage.

Classic concepts in today's organisations: Increasing productivity by enhancing quality

William Edwards Deming was an American statistician, professor, author, lecturer and consultant.[3] He is widely credited with improving production in the United States during World War II, although he is probably best known for his work in Japan. From 1950 onwards, he taught Japanese top managers how to improve product design, quality, testing and sales, primarily through applying statistical methods. He advocated continuous improvement and a systems view of manufacturing, proposing that organisations could 'increase quality and simultaneously reduce costs by reducing waste, rework, staff attrition and litigation while increasing customer loyalty'. To help organisations put that philosophy into practice, Deming developed 14 points for improving management's productivity:

1. Plan for the long-term future.
2. Never become complacent concerning the quality of your product.

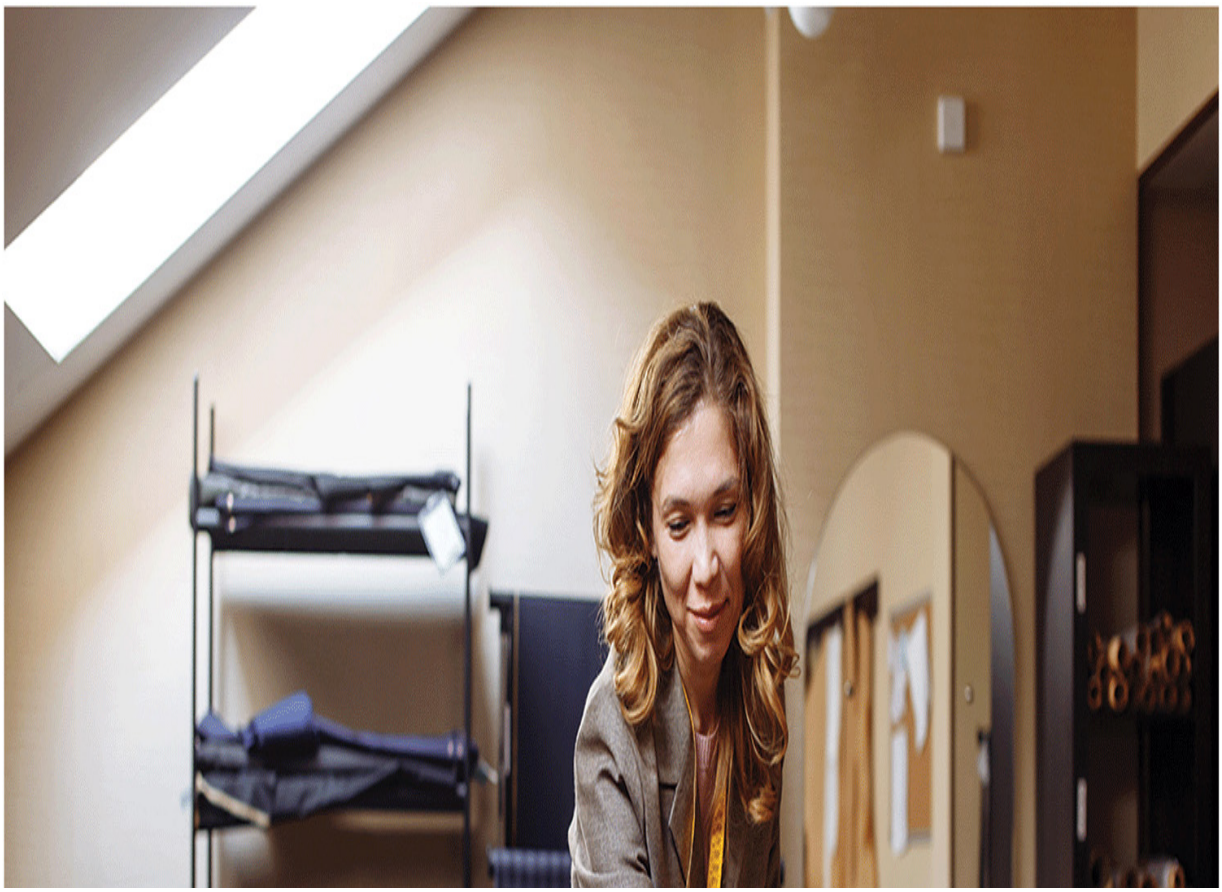
3. Establish statistical control over your production processes and require your suppliers to do so as well.
4. Deal with the best and fewest number of suppliers.
5. Find out whether your problems are confined to particular parts of the production process or stem from the overall process itself.
6. Train workers for the job you are asking them to perform.
7. Raise the quality of your line supervisors.
8. Drive out fear.
9. Encourage departments to work closely together, rather than to concentrate on department or divisional distinctions.
10. Don’t adopt strictly numerical goals.
11. Require your workers to do quality work.
12. Train your employees to understand statistical methods.
13. Train your employees in new skills as the need arises.
14. Make top managers responsible for implementing these principles.

Discuss this

- Which of Deming’s principles do you think are still used by today’s organisations? Why do you think organisations have stopped using the ones that aren’t still in use?
- Why do you think Deming proposed that it was important to ‘drive out fear’ in order to improve productivity?

> $\text{Value} = \text{features}$ and benefits that customers will **pay for**.

Put another way, the strategic role of operations management is in the creation of value that customers and clients will pay for. **Value** is defined as the performance characteristics, features and attributes of goods and services for which customers are willing to give up resources. By 'resources', we usually mean money, although customers also give up other kinds of resources such as time and energy. For instance, consumers who buy groceries online give up time and energy to research and order goods over the internet because they value the convenience of being able to shop any time, or because they value being able to avoid going into a physical supermarket.



Converting fabric into an item of clothing creates many forms of value for a customer, which are quantified in the price paid for the garment.

Albert Shakirov/Alamy Stock Photo

value

The performance characteristics, features and attributes of goods and services for which customers are willing to give up resources

We can quantify the value that an organisation creates: it's the amount of money that customers are willing to pay for an organisation's goods and services, usually expressed as the total revenue that an organisation generates by selling its goods and services.[4] For instance, if an organisation sells two products, we can figure out exactly how much value the organisation is creating with each product line by calculating the total revenue generated by sales of each product. If Product A is generating more revenue than Product B, we know it has more value than Product B has to both customers and to the organisation. We can also quantify exactly how much difference customers see in the value offered by the two products: it's the difference between what they will pay for Product A and what they will pay for Product B.

So, how exactly does an organisation create this value? By managing the value chain!

What is the value chain?

Learning outcome 2.2 Define value chain.

The **value chain** is the entire series of organisational work activities needed to transform raw materials into a final finished product or service delivered to an end user. Each product or service has a value chain, and each activity in the chain adds value to the product or service. We can understand the value creation process, and pinpoint exactly where and how value is being created, by breaking down a value chain into value activities and calculating the value margin created by each one.

> ***value chain***
>
> The entire series of organisational work activities that add value at each step, from raw materials to finished product

Value activities are, specifically, the transformation activities that combine the use of HR, information and some form of technology to convert inputs into two forms of output: some kind of financial asset (usually a product to sell that we can add to an organisation's

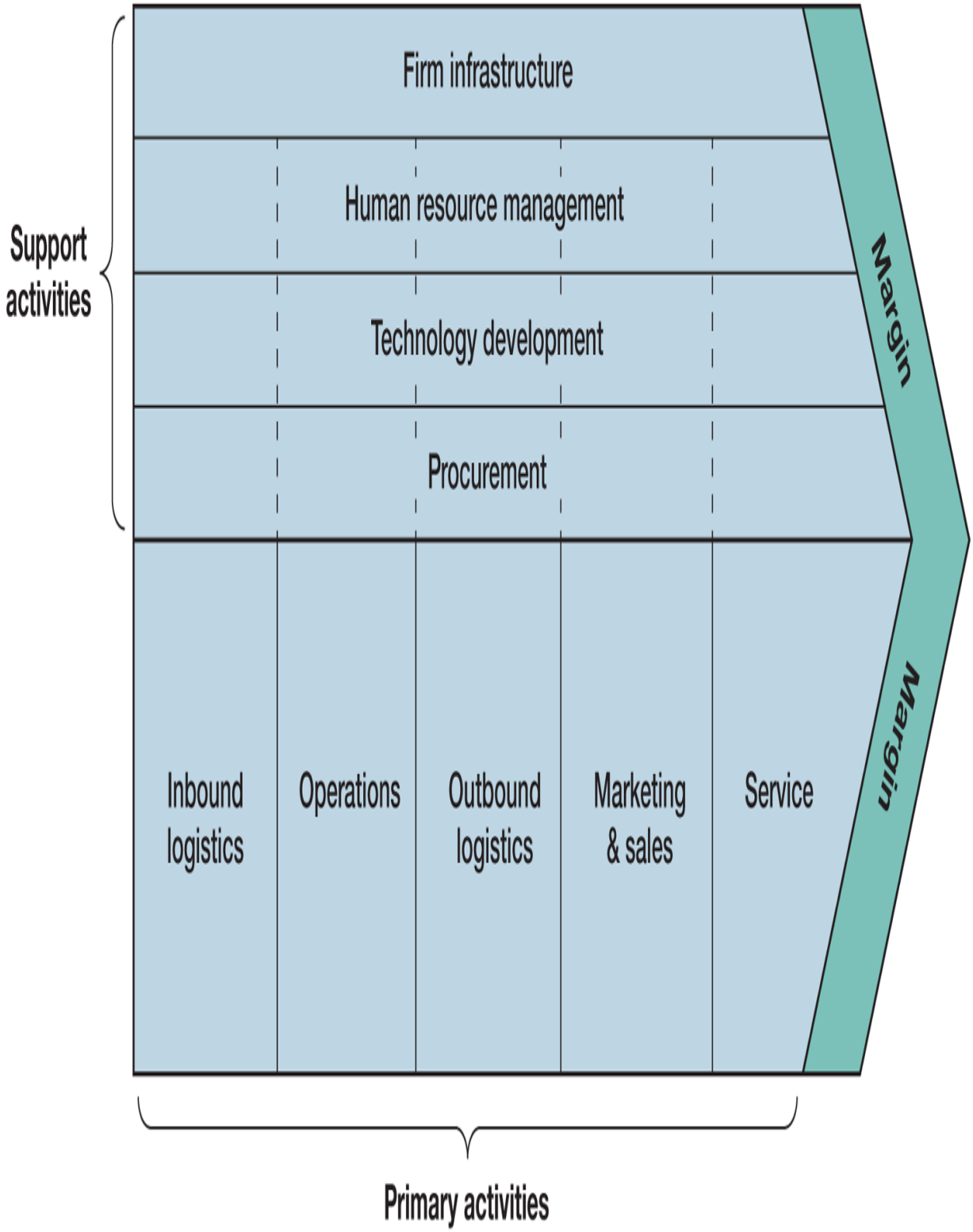
inventory, or a debt that a customer now owes the organisation in payment for a service provided), and information (e.g. information about that product).[5]

value activities

Activities that utilise human resources, information and technology to convert inputs into outputs and generate information

Value activities can be divided into two categories: primary activities and support activities. **Primary activities** are defined as all the activities that directly create value for which customers pay, so they include all activities used to physically create the product or service, sell it, deliver it to the customer, and provide any forms of after-sales service. **Support activities** are undertaken to support and enable the primary activities. These include any activities undertaken to acquire, store and manage the inputs, technology, HR and information used in the primary activities.[6] You can see examples of primary and support activities in **Figure 2.1**.

Figure 2.1 Primary and support activities



Source: D. Barnes (ed.), Understanding Business Processes (London: Routledge, © M.E. Porter, 2001).

Reproduced by arrangement with Taylor & Francis Group.

primary activities

Value activities that directly create value for which customers pay by contributing to the production, sale, delivery and after-sale support of a product

support activities

Value activities undertaken to support and enable the primary activities

The **margin** created by the value chain is the difference between the total value created by value activities (measured in revenue) and the collective cost of performing those activities. Put another way, it's the profit margin! But when we can calculate the margin produced along the value chain, and by each value activity, we can work out the answers to some very important questions! These include:

margin

Profit generated by the value chain, calculated as the total revenue generated

from the chain minus the collective cost of performing chain activities

- Which activities are actually creating the product and service features that customers pay money for? How much marginal value (extra revenue) is each activity creating?
- Which activities create product and service features for which customers are *not* prepared to pay extra money (and hence don't add any value to the margin)?
- Which support activities are needed to support the primary activities for this value chain? How much is it costing the organisation to perform the support activities that support this value chain?
- Which activities do we need to perform to check the quality of the outputs we are producing so that they meet the value expectations of customers?

Although it doesn't necessarily cost a lot to do, the process of cutting a diamond creates an enormous amount of value. For this reason, it's done extremely carefully!

Bjoern Wylezich/Shutterstock.com

The answers to these questions tell an organisation which activities are *directly* contributing to value creation, which *indirectly* contribute to value creation, and which contribute to *quality assurance.*[7] All are

important, but each makes a different contribution to value creation overall.

The answers also help an organisation to determine how well it is using each value chain to support its strategies. For example, if an organisation is offering products with unique features for which it charges premium prices, the questions indicate which activities produce the features that customers see as unique and valuable. To maximise profits at the margin, it should invest in those activities and minimise the costs of performing all other types of value activities. In contrast, an organisation offering the cheapest and most basic products in the market can use value chain analysis to identify product features that are not valued by customers. It can then eliminate the activities that produce those features, lowering production costs and potentially charging cheaper prices to generate more sales.

What is value chain management?

Learning outcome 2.3 Define value chain management and describe what it entails

Value chain management is the process of managing the sequence of activities and information along the entire value chain. In its entirety, the value chain can encompass everyone from the supplier's suppliers to the customer's customers.[8] Whereas operations management involves all of the transformation processes an organisation uses to transform inputs into outputs, value chain management focuses specifically on the transformation processes used to create products and services that customers value and will pay for.

value chain management

The process of managing the sequence of activities and information along the entire value chain

What are the goals of value chain management?

Using value chain management, managers seek to offer product and service solutions to customers that truly meet their needs at a price that can't be matched by competitors.[9] A good value chain is one in which a sequence of participants works faster as a team, each adding some component of value – such as faster assembly, more accurate information, or better customer response and service – to the overall process.[10] The better the collaboration among the value chain participants, the better the customer solutions. When value is created for customers and their needs and desires and satisfied, everyone along the chain benefits.

Collaborating with external and internal partners to create and manage a successful value chain requires significant investments of time, energy and other resources plus a serious commitment by all chain partners. It can be a lot of work, but a survey of manufacturers found it produces four primary benefits: improved procurement, improved logistics, improved product development, and enhanced customer order management.[11] Benefits can also escalate over time. For example, when Iomega Corporation, a manufacturer of personal computer storage devices, began managing its value chains, it started by improving relationships with internal suppliers, then

expanded to its relationships with external suppliers and customers. As the company's experience with value chain management intensified and improved, so did its connection to customers, which ultimately paid off for all its value chain partners.[12]

Value chain management also requires a significant shift in mindset for some organisations because the power dynamics of value chain management are quite different from those of more traditional business relationships. Traditionally, the power in a supply chain might reside with a supplier who provides needed resources and materials, and has the power to dictate process and quality. Or it might lie with the manufacturer, who converts those resources into a commercially successful product or service. Or it may lie with the distributor, who makes sure the product or service is available where and when the customer needs it. But in value chain management, ultimately customers are the ones with the power,[13] because it is they who decide what value (if any) the chain's activities create that is worth paying for.

Rethinking management in a global crisis: New ‘rules of the game’ change the value of chains

Traditionally, the competitive success of a restaurant depended on the value chains it could build with the suppliers of its food, its drinks and its service. For some, success has been based on building value chains through which they can source the best-quality meat, vegetables, herbs and spices for their dishes. For others, it has also stemmed from value chains that provide access to innovative, delicious and high-quality beverages. But on 22 March 2020, in response to the COVID-19 pandemic, the Australian government announced a ban on in-house dining at all restaurants; only those selling food for takeaway or delivery would be able to continue operating. Suddenly, business survival came down to whether a restaurant currently had value chains that enabled takeaway and home delivery services, or could create them very quickly! As businesses scrambled to adapt to this sudden change in the ‘rules of the game’, delivery services such as Uber Eats and Deliveroo became highly desirable (and powerful) chain partners. But while some restaurants adapted by joining delivery service value chains, others decided to go it alone. Some opted to deliver their own food, deploying wait staff as delivery drivers in order to keep them in work. Others opted to only provide takeaway options and simply scale

down their operations accordingly. Still others opted instead to shut down and hope that their customers would return when they could resume business as usual.

What are the requirements for successful value chain management?

As you can see in the following figure, there are six main success requirements for value chain management. Let’s look at each one more closely.

Coordination and collaboration

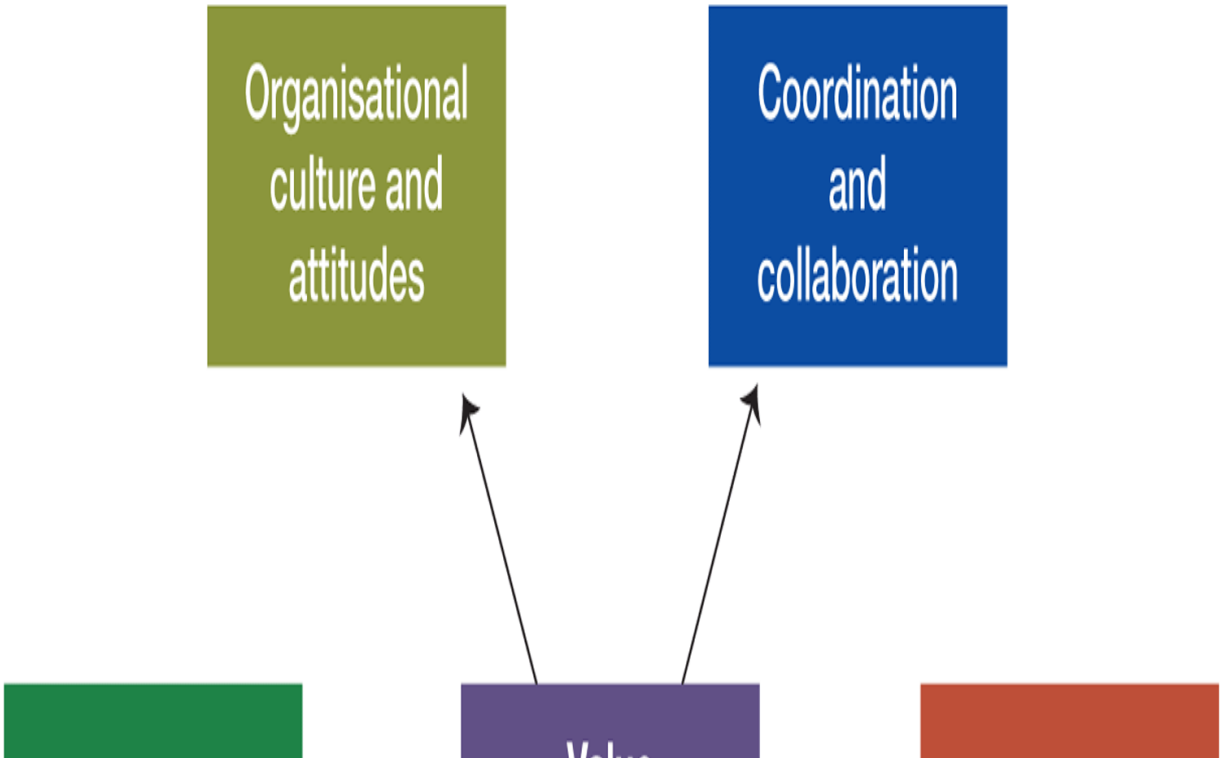
For the value chain to achieve its goal of fulfilling customer needs and desires, comprehensive and seamless integration among all members of the chain is essential. All partners in the value chain must identify things that customers value. Sharing information and being flexible as far as who in the chain does what are important steps in building coordination and collaboration. This sharing of information and analysis requires open communication among the various value chain partners.

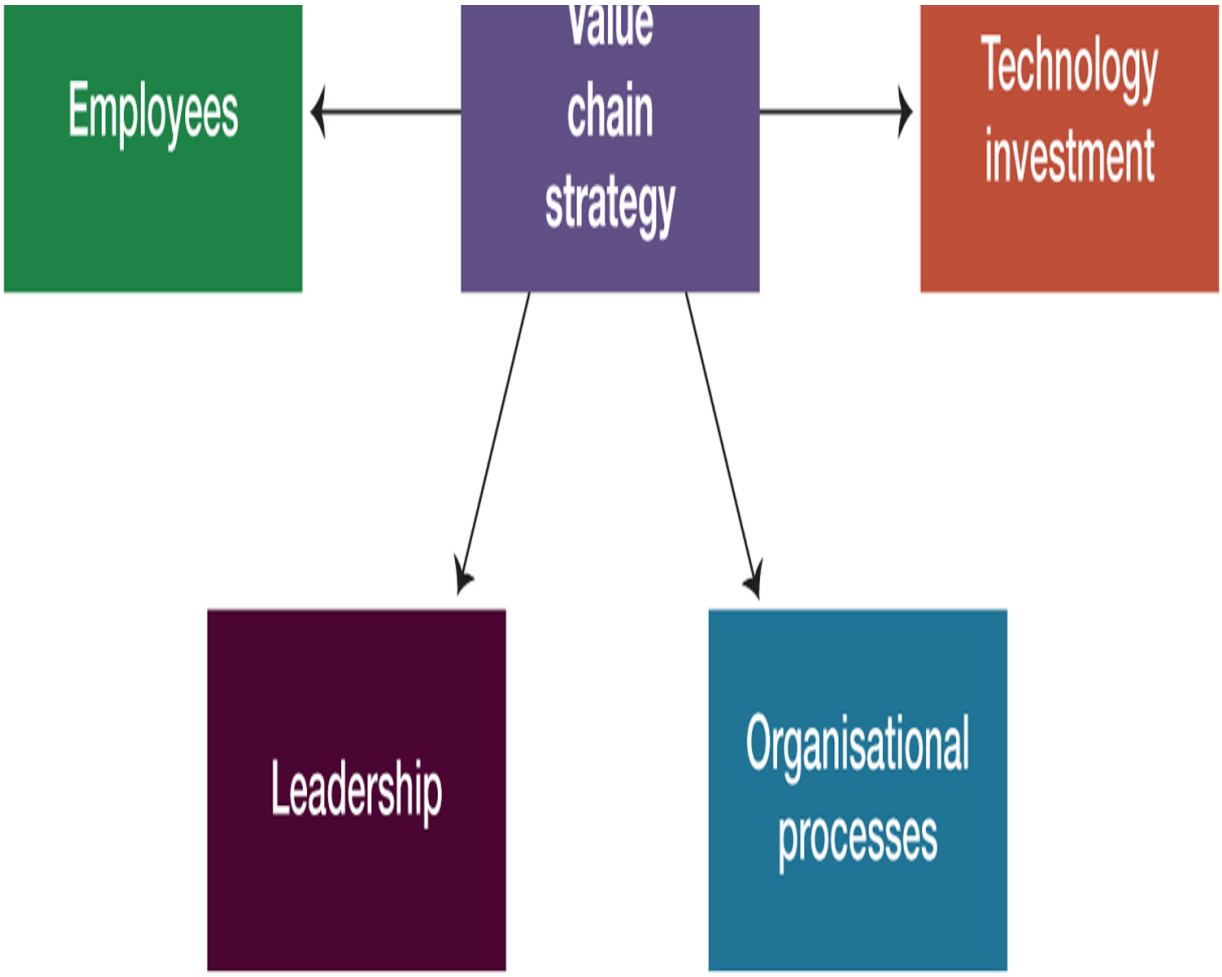
Technology investment

Successful value chain management isn’t possible without a significant investment in information technology (IT). According to experts, the

key tools include a supporting enterprise resource planning (ERP) software system that links all of an organisation's activities, sophisticated work planning and scheduling software, customer relationship management systems, business intelligence capabilities, and e-business connections with traditional network partners.[14] The payoff from this investment is that IT can be used to structure the value chain to better serve end users.[15] For instance, Dell manages its supplier relationships almost entirely online. The company has one website for customers and one for suppliers. The supplier website is the primary mode of communication between Dell and its largest suppliers. The company's investment in this type of IT allows it to meet its customers' needs in a way that competitors haven't been able to match.[16]

Figure 2.2 Requirements for successful value chain management





Organisational processes

Value chain management radically alters **organisational processes** – that is, the way work is done.[17] Managers must critically evaluate all organisational processes by looking at core competencies – the organisation's unique skills, capabilities and resources – to determine where value is being added, and how those competencies can be best utilised. Managers can ask questions such as: 'Where can we improve flows of material and information? How can we better configure our product to satisfy both customers and suppliers? How can we improve customer service?' For example,

when Deere & Company, a manufacturer of agricultural, construction and forestry machinery, implemented value chain management in its Worldwide Commercial and Consumer Equipment Division, a thorough process evaluation revealed that work activities needed to be better synchronised and the interrelationships between multiple links in the value chain needed to be better managed. The company changed numerous work processes across the division in order to improve these relationships.[18]

organisational processes
The way work is done

Generally speaking, there are at least three main ways in which organisational processes much be adapted in order to enhance value chain management:

1. Better demand forecasting is necessary and possible because of closer ties with customers and suppliers. This has payoffs for the whole chain. For example, when Walmart and Pfizer Consumer Healthcare collaborated to improve product demand forecast information for Listerine, they improved their ability to ensure Listerine was on Walmart store shelves when customers wanted it. Customers benefited by being able to

get the product when and where they wanted it, and Walmart's sales of Listerine increased by US$6.5 million.

2. Selected functions may need to be done collaboratively with other partners in the value chain. This collaboration may even extend to sharing employees.
3. New measures are needed for evaluating the performance of various activities in the value chain. Because the goal of value chain management is to meet and exceed customers' needs and desires, managers need a better picture of how well value is being created and delivered to customers. For instance, when Nestlé US implemented a value chain management approach, it redesigned its measurement system to focus on one consistent set of factors, including accuracy of demand forecasts and production plans, on-time delivery, and customer service levels. This redesign allowed management to more quickly identify problems and take actions to resolve them.[19]

Leadership

Successful value chain management isn't possible without strong and committed leadership.[20] At all organisational levels, managers must support, facilitate and promote the ongoing practice of value chain management. Managers must make a serious commitment to identifying what value is, how that value can best be provided, and how successful those efforts have been. That type of organisational focus on delivering superb customer value, isn't possible without a serious commitment on the part of the organisation's leaders.

Also, it's important that leaders outline expectations for utilising value chain management. Ideally, articulating expectations should start with a vision or mission statement that expresses the organisation's commitment to identifying, capturing and providing the highest possible value to customers. For example, when American Standard Companies adopted value chain management, the CEO attended dozens of meetings across the US explaining the changing competitive environment and why the company needed to create better working relationships with its value chain partners.[21] Managers should also clarify expectations regarding each employee's role in the value chain. Being clear about expectations also extends to partners. For example, managers at American Standard identified clear requirements for suppliers and were prepared to drop any that couldn't meet them. The company did cut hundreds of suppliers from its air conditioning, bath and kitchen, and vehicle control systems businesses. The upside, though, was that those suppliers that met the company's expectations benefited from more business and American Standard had partners that could deliver better value for customers.

To illustrate the power of clear and committed leadership for successful value chain management, consider this example. A business owner was so sure that value chain management could dramatically improve his company's performance, he decided to put his money where his mouth was.[22] In consultation with his executive leadership team, he established a company goal of saving $3 million a year through value chain analysis and supply chain improvements, using a strategic plan that would require major changes in the

company's internal operations and close collaboration with six key suppliers and three key retailers. He realised that the plan would put '$3 million a year in my pocket, and . . . I'm the only one in the room excited about it'. So, he pledged to create a special bonus fund of $1 million specifically linked to the strategic plan. In any year that the company achieved its $3 million improvement to the bottom line, bonuses from that fund would be paid to any employee who could demonstrate they played a significant role in that process. The business owner also met with the nine key suppliers and retailers and promised that in every year that the chain partner cooperated with achieving the company's plan, any savings attributable to the partner's efforts would be shared 50/50 with them. Not surprisingly, the plan was successful! In its first year, the company's bottom line improved by $3.75 million, achieving the required savings goal AND almost entirely covering the cost of the bonus fund!

Employees

Value chain management requires a high degree of flexibility by employees, and to achieve this they need support in three main areas of HR management: job design, hiring and training. In a value chain environment, jobs need to be designed around work processes that link all functions involved in creating and providing value to customers. This type of flexible job design supports the company's commitment to providing superb customer value.[23] In designing jobs for a value chain approach, the focus needs to be on how each activity performed by an employee contributes to the creation and delivery of customer value, which requires flexibility in what employees can do

and how they can do it. The organisation's hiring process may also need to be designed to identify those employees who have the ability to quickly learn and adapt so they can be responsive when collaborative relationships or changing customer needs require it. Flexibility also requires a significant investment in ongoing employee training. In a value chain environment, this might include training in the use of IT software, how to improve the flow of materials through the chain, how to identify activities that add value, how to make better decisions faster.

Organisational culture and attitudes

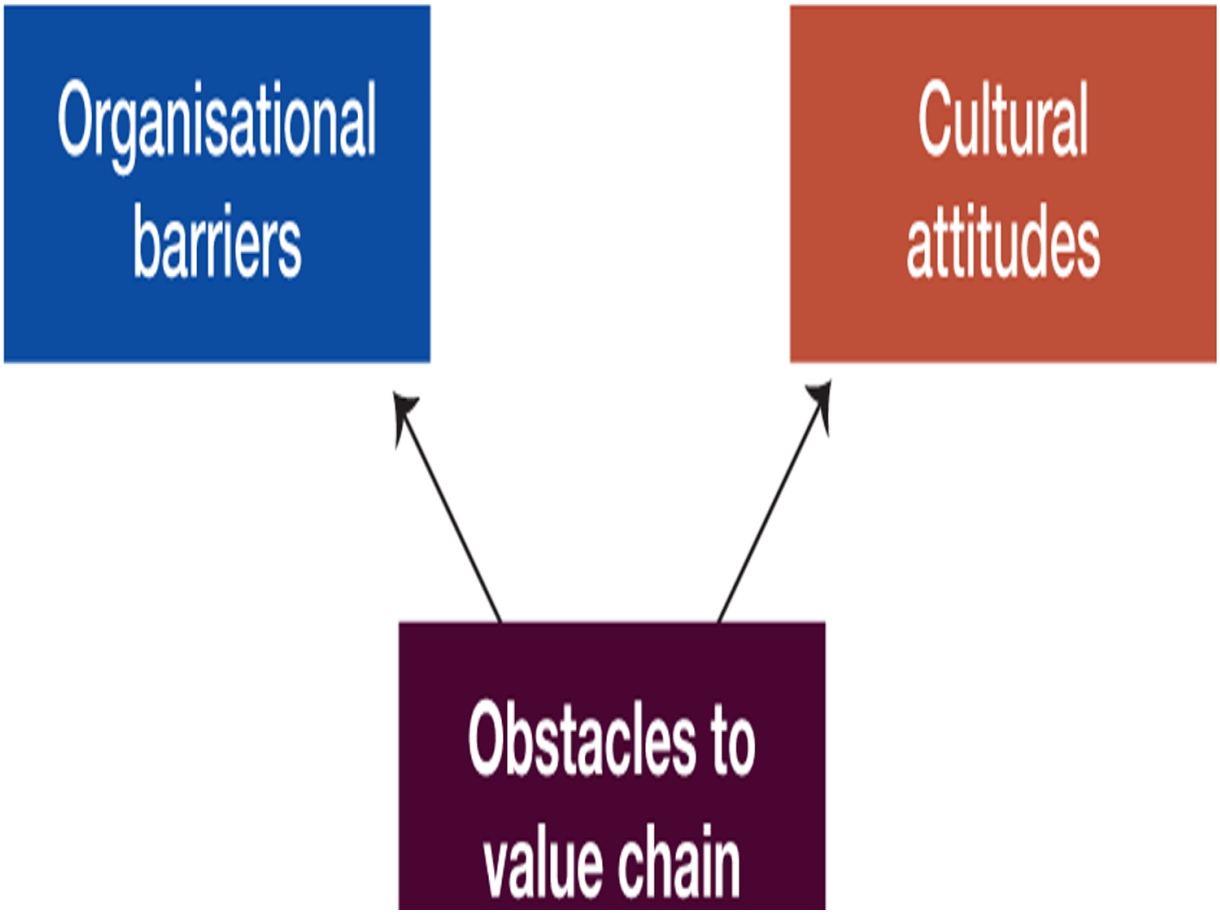
The last requirement for value chain management is having a supportive organisational culture and attitudes. Those cultural attitudes include sharing, collaborating, openness, flexibility, mutual respect and trust. These attitudes encompass not only the internal partners in the value chain, but external partners as well. Organisations differ in how they do this. American Standard has chosen to practise these attitudes with lots of face time and phone calls, whereas Dell has taken a completely different approach and done this through cyberspace.[24] Both approaches, however, reflect an organisational commitment to developing long-lasting, mutually beneficial and trusting relationships that best meet customer needs.

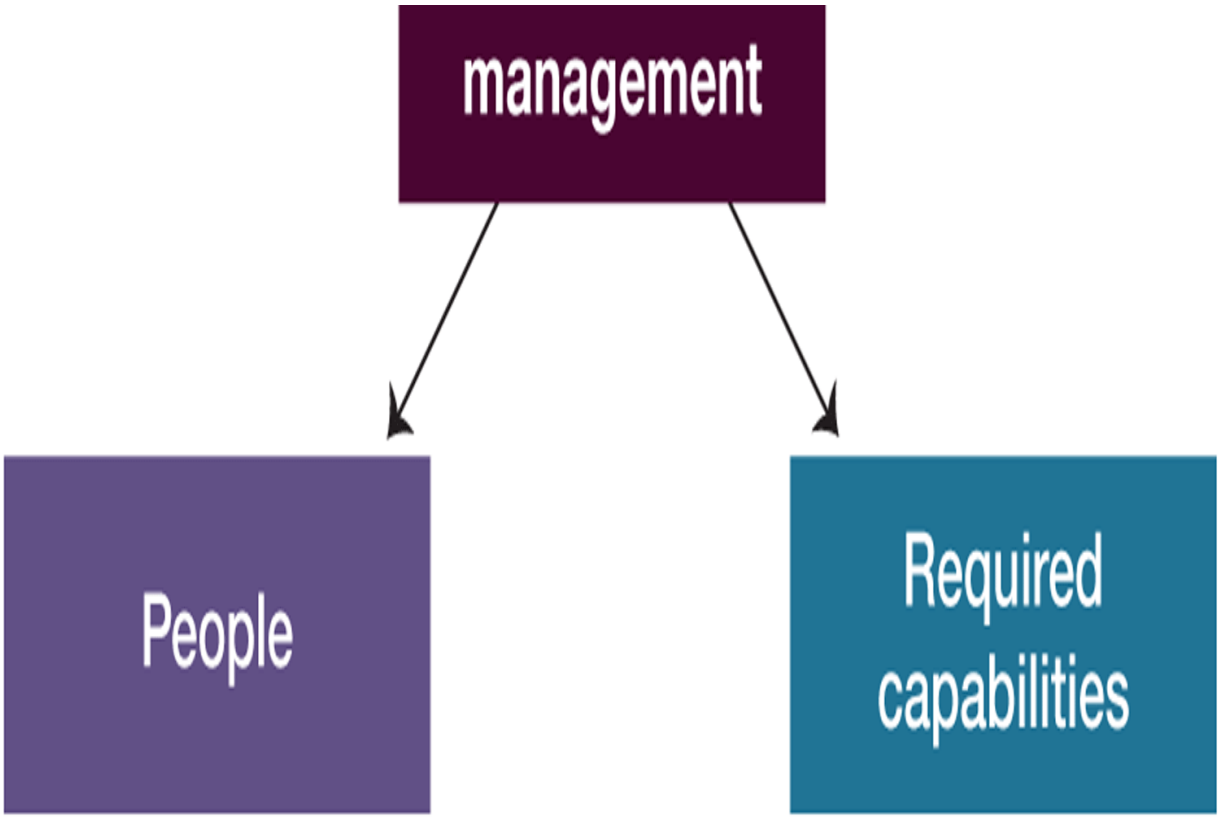
> **Collaboration** and **commitment** are essential for successful value chain management.

What are the obstacles to value chain management?

Managers practising value chain management also need to be aware of the obstacles that can prevent it from working effectively, so that these can be minimised or eliminated. The barriers to value chain management are summarised in **Figure 2.3** and discussed in detail next.

Figure 2.3 Obstacles to successful value chain management





Organisational barriers

Organisational barriers are among the most difficult obstacles to handle. The first barrier is refusal or reluctance to share information, which makes close coordination and collaboration with chain members difficult. The second barrier is reluctance to shake up the status quo, which can impede efforts towards value chain management and prevent its successful implementation. (We talk more about this in the chapter on managing change and innovation.) The third obstacle is security issues. Because value chain management relies heavily on a substantial IT infrastructure, system security is crucial and internet security breaches are major threats that need to be anticipated and addressed.

Cultural attitudes

Unsupportive cultural attitudes – especially around trust and control – can also be obstacles to value chain management. To be effective, partners in a value chain must trust each other. There must be mutual respect for, and honesty about, each partner's activities all along the chain. When that trust doesn't exist, the partners will be reluctant to share information, capabilities and processes. But too much trust can also be a problem. Any organisation is vulnerable to theft of intellectual property – that is, proprietary information that is critical to an organisation's efficient and effective functioning and competitiveness. You need to be able to trust your value chain partners so that your organisation's valuable assets aren't compromised.[25] Another problematic attitude is the belief that when an organisation collaborates with external and internal partners, it no longer controls its own destiny. This means that successful value chain management requires every partner in the chain to think carefully about the risks and rewards of sharing information about its operations. For instance, partners need to think carefully about how they manage control processes used to detect fraud. As one expert on chain fraud has noted,[26] sharing fraud-monitoring data and practices with chain partners can be beneficial to the chain relationship; however, in instances where those practices represent proprietary knowledge of the partner firms, it may be better and safer for partners only to share data about the results they achieve.

Required capabilities

As we discussed in the previous section, value chain partners need numerous capabilities. Several of these – coordination and collaboration, the ability to configure products to satisfy customers and suppliers, and the ability to educate internal and external partners – aren't easy to develop. Yet they are essential to capturing and exploiting the value chain. Many of the companies we've described in this chapter endured critical and oftentimes difficult self-evaluations of their capabilities and processes in order to become more effective and efficient in managing their value chains.

People

The final obstacles to successful value chain management can be an organisation's people. If employees refuse to be flexible about how and with whom they work, collaboration and coordination throughout the value chain will be hard to achieve. In addition, value chain management takes an incredible amount of time and energy on the part of an organisation's employees. Managers must motivate those high levels of effort from employees, which isn't always an easy thing to do.

What contemporary issues do organisations face in operations management?

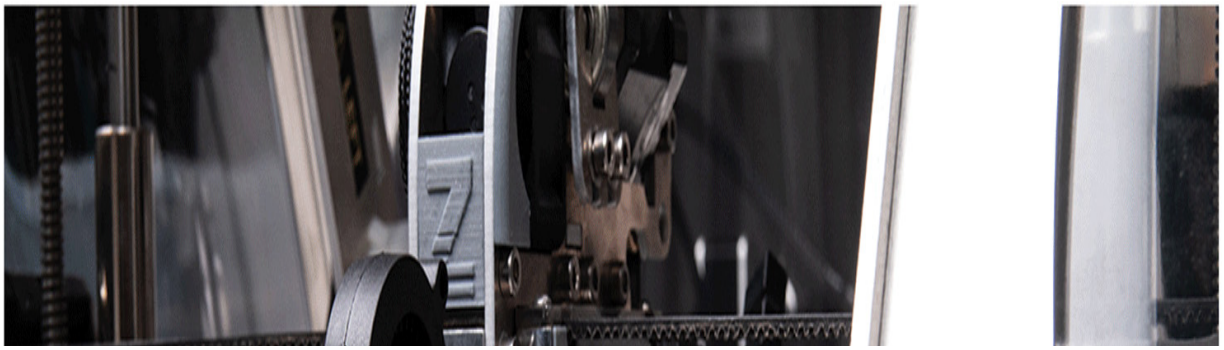
Learning outcome 2.4 Discuss contemporary issues that managers face when managing operations.

The role of technology in operations management

Technology has become a crucial part of every aspect of operations management. Social media helps organisations understand why customers value their products and services. Automated ordering systems allow organisations to instantaneously source inputs as customer orders are processed. Technological control systems can provide real-time feedback on production processes to identify defects and production delays. One of the most powerful examples of technology transforming operations management is 3D printing. 3D printing is a technology used to make three-dimensional solid objects from a digital file. It's also known as additive manufacturing, because a 3D printer operates by printing thousands of individual horizontal layers which are layered on top of each other to create the three-dimensional object.[27] 3D printing was first invented in 1983, but technology has come a long way since then.[28] The latest 3D printing technologies are as simple to use as a regular printer: you create a 3D model of the object you wish to make, use slicing software to divide the model into thousands of horizontal layers, and then print the object using the 3D printer.[29]

The wide range of uses for 3D printing highlights the usefulness and transformative power of this technology.[30] Automobile and aviation

manufacturers use 3D printing to create engine- and body-specific parts for cars and planes on demand, which means they can shorten the design and production processes, produce only the stock they need, and make manufacturing processes more efficient. For example, when GE Aviation used traditional methods to make the fuel nozzles for its LEAP aircraft engines, around 20 different parts had to be welded together to make one nozzle. When the company switched to 3D printing of the nozzles, it was able to produce nozzles that weighed 25 per cent less and were five times stronger, saving GE US$3 million per aircraft. 3D printing also enhances efficiency, because printing objects uses less of the component material than other manufacturing processes. For example, Norsk Titanium uses 3D printing to make titanium fittings for aircraft. Machining the fittings from a block of titanium means using a 30 kg block of titanium to produce a 2 kg fitting, with the other 28 kg going to waste. 3D printing the same parts uses only 6 kg of titanium wire. 3D printing is also making it possible to use existing materials in new, creative ways. For instance, restaurants such as Food Ink in the UK, Melisse Restaurant in the US, and La Enoteca in Barcelona use 3D printers to create intricate and amazing dishes and garnishes, such as a flower-shaped centrepiece for a seafood dish that is made out of seafood puree, and customised garlic croutons for onion soup.[31]



3D printing makes it possible for organisations to make new things in new ways much more simply and cheaply than traditional manufacturing processes.

Image by ZMorph3D from Pixabay

In addition to transforming how traditional operating systems and value chains operate, 3D printing is creating entirely new value chains.[32] This includes value chains to 3D print whole houses, clothing and shoes. One of the latest developments is bio-printing, which is the use of 3D printing technology to print layers of living cells to build organs and body parts!

All in all, it's easy to see that this one technology is revolutionising operations systems and value chains. It is helping to make manufacturing processes more efficient, cheaper, faster and less wasteful, enhancing both productivity and sustainability. It's also contributing to humanitarian efforts, such as the provision of housing for refugees and the creation of medical equipment used to treat victims of natural disasters.[33]

Andrew Lamb and his team at Field Ready use 3D printing to provide humanitarian aid in natural disasters, then teach local people how to use the technology to help rebuild their communities.

Photograph courtesy of Field Ready

Managing quality in the value chain

When you think about the quality of a product or service, what do you think about? Do you focus on whether the product is easy to use or hard to break? Do you mean whether the service is delivered in a way that you intended or expected? Or do you focus on whether the service achieves the outcome it was meant to? There are actually many dimensions to the quality of products and services.[34] For example, the quality of a physical product such as a shoe includes elements such as its design and appearance, its fit on your foot, its conformity with industry standards (e.g. standards for safety footwear), how reliably it wears and fits over time, its durability, how aesthetically appealing it is, and the reputation of the brand, make and shoe manufacturer. Service products have different quality dimensions. The quality of a service product – repair of your computer, say – includes elements such as how you access the service (e.g. you take the computer to the physical equipment and resources that are used to repair it), and how safe the service is (e.g. it doesn't put you or your computer at risk). It also includes elements that relate to the service provider, such as how reliable, competent, credible and courteous they are, and how well they understand you and what you need.

Managing quality in a value chain has two main parts: managing the quality of outputs produced by each chain management, and managing quality across the whole chain. This requires that chain

members can plan, organise, lead and control for quality, both within their organisations and within their chain partners.

When *planning for quality*, managers must have quality improvement goals and develop strategies and plans for achieving those goals. Goals can help focus people's attention on achieving the desired quality standard. For instance, Caterpillar, the makers of mining and transport equipment, has the goal of using quality improvement techniques to help cut costs.[35] In addition to setting quality goals specific to their organisations and value chains, organisations can also formally adopt globally-recognised quality standards. Two of the best known are ISO 9001 and Six Sigma.

ISO 9001 is a series of international quality management standards established by the International Organization for Standardization (**www.iso.org**), which sets uniform guidelines for processes to ensure that products conform to customer requirements. These standards cover everything from contract review to product design to product delivery. The ISO 9001 standards have become the internationally recognised standard for evaluating and comparing companies in the global marketplace. In fact, this type of certification can be a prerequisite for doing business globally. Achieving ISO 9001 certification provides proof that a quality operations system is in place. Organisations can also use it to establish a set of quality standards for a whole value chain if they adopt the rule that they will only work with chain partners who have ISO 9001 certification. This has the additional advantage that the assessment of each chain member's operations is undertaken by the ISO as an independent

body, relieving chain members of the need to police each other's quality standards.

Six Sigma is a stringent quality improvement program first developed by Motorola.[36] Very simply, Six Sigma is a quality standard that establishes a goal of no more than 3.4 defects per million units or procedures. That's a very ambitious quality goal! Sigma is the Greek letter that statisticians use to define a standard deviation from a bell curve. The higher the sigma value, the higher the deviations from the norm – that is, the fewer the defects. At One Sigma, two-thirds of what is being measured falls within the curve. Two Sigma covers about 95 per cent. At Six Sigma, you're about as close to defect-free as you can get.[37] It's an extremely high standard to achieve, but many quality-driven businesses are using it and benefitting from it. These include General Electric, Amazon, 3m, Sony and Johnson & Johnson. One powerful example is Wellmark Blue Cross and Blue Shield, a manager care health-care company in the United States. When it adopted Six Sigma, the company identified that half the processes it used for certain key functions were either unnecessary or created no additional value. Eliminating those unnecessary steps helped the company perform some of its key functions in less than half the usual time and reduce its administrative expenses by US$3 million a year, which meant it could then offer customers lower health insurance premiums.[38]

Although many benefits can come from obtaining ISO 9001 certification or Six Sigma, it's important for managers to recognise that *the key benefit comes from the quality improvement journey*

itself. In other words, the goal of quality certification should be to have work processes and an operations system in place that enable the organisation to meet customers' needs and employees to perform their jobs in a consistently high-quality way.

When organising and leading for quality, it's important for managers to look to their employees. Organisations with extensive and successful quality improvement programs tend to rely on two important organisational structures: self-managed teams, and self-directed or empowered work teams. (We'll discuss these further in the chapters on organisational structure, and managing work groups and teams.) Finally, managers must recognise when controlling for quality that quality improvement initiatives aren't possible without having some way to monitor and evaluate their progress.

> Maximise **quality**, minimise **waste**.

Using lean management

Lean management is a systematic approach for streamlining organisational operations to reduce waste and inventory and improve customer responsiveness.[39] It evolved from lean manufacturing, which was invented by Toyota in the 1930s to improve the productivity and efficiency of Toyota's automobile manufacturing processes. Over time, it has been evolved to apply to other forms of operations management, including knowledge work, IT and, most recently, health care.[40]

Lean approaches to manufacturing and management focus on enhancing value creation and improving efficiency by minimising waste. Waste may result from using inputs in ways that are inefficient, from under-utilising inputs that could be put to better or more use, or from producing outputs that exceed requirements.[41] For instance, when an organisation is unnecessarily transporting inputs or outputs (e.g. into storage and then to the point of production or sale), requiring workers to engage in unnecessary motion, or producing components or products with defects, it is using inputs inefficiently. Workers waiting for materials, information or information, or not using their creativity, are examples of inputs being under-utilised. When an organisation buys or produces more items than it needs (e.g. excess inventory), or over-produces an item to exceed what the customer

actually needs, the organisation is producing outputs that exceed requirements.

Lean approaches use five principles to streamline operations management in ways that improve efficiency and value creation.[42]

1. Define the value that customers are willing to pay for. This includes value they currently get from the organisation's products and services, and the value they want but can't currently get. By researching customer wants and needs, the organisation can identify new forms of value that it could create now and in the future, and assess how much customers are prepared to pay to get them.
2. Map the value chain to identify all activities that are contributing value: any that don't add value are considered 'waste'. Waste activities that are necessary but not adding value are then reduced as much as possible: those that don't add value and are unnecessary are eliminated.
3. Create flow in the value chain by re-sequencing activities to remove interruptions, redundancies and delays. This might involve streamlining transfers of materials, or breaking down activities into smaller steps so they can be re-sequenced or have unnecessary steps eliminated.
4. Create a pull-based production system so that products are only created when they are needed by customers and the organisation only produces the amount that customers need.
5. Become a learning organisation focused on continuous improvement so that every employee is always focused on

identifying additional ways to minimise waste and improve efficiency.

Lean management can achieve impressive results in enhancing efficiency and productivity over both the short and long term. For instance, Porsche adopted lean manufacturing and within two years had reduced the number of errors in supplied parts from 10,000 to 4,000, and the number of errors coming off its assembly line from 100 to 60. Within six years, the company had reduced the time taken to get a new car from concept to launch from seven years to three, and reduced the time taken from welding the car's frame together to finishing the whole car from six weeks to three days.[43]

Managing for sustainability: Managing the value chain from cradle to grave

The ever-increasing focus on the sustainability of organisational operations has redefined our understanding of where value chains start and end. At one end of the chain, more attention is being paid to where and how the raw materials used in value chains are created, and to the sustainability of those production processes. For example, the origin of cotton used in garment manufacturing has come under greater scrutiny in recent years. This is because cotton production uses a lot of water, and the sustainability of its production in drought-plagued countries is being challenged.

At the other end of the chain, concerns about waste generation have focused more attention on what occurs when a product has reached the end of its useful life. In addition to making organisations take more responsibility for the products they create and the processes used to do so, this scrutiny has also created opportunities to create new forms of value. For instance, some disposable plates and cutlery are now being made with biodegradable materials so they can decompose

after use, rather than go into landfill. Other products, such as printer cartridges and razors, are now being made to be refillable rather than single-use and disposable, so as to extend their useful life. Other value chains use waste materials from one operating system to create other products, such as using the waste plastic strips from one production process as the bristles in brooms. Some even enable up-cycling, which is when used products (or parts of them) are used to produce more valuable items, such as when recycled plastic bottles are used for manufacturing clothing.

What is organisational culture, and why is it important?

Learning outcome 2.5 Define organisational culture and explain why it's important.

While an organisation's operations system defines *what* the organisation does, it's culture defines *how* it operates by defining its goals and how they should be achieved, including its goals for how its members behave. **Organisational culture** has been described as the shared values, principles, traditions and ways of doing things that influence how organisational members act. We can think of an organisation's culture as its personality – the ways of thinking and behaving that are unique to this organisation and different from other organisations.[44] Or, as the head of Hilton Worldwide succinctly put it, 'I think of culture as guardrails . . . what you stand for, essentially the ground rules so that people know how to operate.'[45] An organisation's culture defines how it interacts with its environment as it deals with two key issues: handling environmental opportunities and threats so that it can survive and prosper; and integrating and managing its people, structure and activities to keep the organisation together.[46]

organisational culture

The shared values, principles, traditions and ways of doing things that influence the way organisational members act

> $\text{Culture} = \textbf{how}\ \text{we do}$ what we do, and **why** we do it that way.

Research suggests there are seven dimensions that describe an organisation's culture.[47] These dimensions (shown in the following figure) range from low to high, meaning it's not very typical of the culture (low) or is very typical of the culture (high). Describing an organisation using these seven dimensions gives a composite picture of its culture. In many organisations, one cultural dimension is often emphasised more than the others and essentially shapes the organisation's personality and the way its members work. For example, at Sony Corporation the focus is on product innovation (innovation and risk taking). The company 'lives and breathes' new product development, and employees' work behaviours support that goal. In contrast, EY (formerly Ernst & Young) has made its employees a central part of its culture (people orientation) and shows this through the way it treats them.

An organisation's culture usually reflects the vision or mission of its founders. The founders establish the early culture by projecting an image of what the organisation should be and what its values are.

The small size of most new organisations also helps the founders impose their vision on all organisation members. Employees 'learn' an organisation's culture in a number of ways. The most common ways are stories, rituals, material symbols and language.

Organisational *stories* typically contain a narrative of significant events or people, including such things as the organisation's founders, rule breaking, reactions to past mistakes and so on.[48] To help employees learn the culture, organisational stories anchor the present in the past, provide explanations and legitimacy for current practices, exemplify what is important to the organisation, and provide compelling pictures of its goals.[49]

Corporate *rituals* are repetitive sequences of activities that express and reinforce the important values and goals of the organisation.[50] *Material symbols* or *artefacts* communicate an organisation's personality.[51] When you walk into different organisations, you get a 'feel' for what type of work environment it is – formal or casual, fun or serious. The layout of an organisation's facilities, how employees dress, the types of cars provided to top executives, and the availability of corporate aircraft are examples of material symbols. Others include the size of offices, the elegance of furnishings, and reserved parking spaces for certain employees. Material symbols convey to employees who is important and the kinds of behaviour (e.g. risk-taking, conservative, authoritarian, participative, individualistic and so on) that are expected and appropriate. Many organisations and units within organisations use *language* as a way to identify and unite members of a culture. By learning this language,

members attest to their acceptance of the culture and their willingness to help preserve it. Over time, organisations often develop unique terms to describe equipment, key personnel, suppliers, customers, processes or products related to their business. New employees are frequently overwhelmed with acronyms and jargon that, after a short period of time, become a natural part of their language. Once learnt, this language acts as a common denominator that bonds members. An organisation’s culture, then, results from the interaction between the founders’ biases and assumptions and what the first employees learn subsequently from their own experiences.

A question of ethics: Values and value

Reconciling your personal values with the cultural values of your organisation can be challenging. For example, imagine you are the manager of a customer service team for an internet service provider. You believe the hallmark of good business is providing good value for customers. Your company has developed two new service packages for customers: Package A and Package B. Your team has been instructed to convince customers to convert from their existing package to Package A. You know that Package B provides better value for money for this customer group but that Package A is more profitable for the company.

Discuss this

- What is the ethical dilemma you face?
- What are your options in this situation? Is there any way you can accommodate your personal values AND the organisation's priorities?

How does organisational culture affect managers?

Learning outcome 2.6 Describe how organisational culture affects managers.

Organisational culture defines for managers and employees what is important, what defines ‘good’ behaviour, what it takes to get ahead, and so on. It also acts as a form of control system to promote the behaviours that the organisation wants and to discourage those that it doesn’t want. As shown in **Table 2.1**, managers’ decisions are influenced by the culture in which they operate.

Table 2.1 Managerial decisions affected by organisational culture

The stronger a culture becomes, the more it affects and aligns the way managers and employees behave. **Strong cultures** are those in which the key values are deeply held and widely shared; the more employees who accept the organisation’s key values and the greater their commitment to those values, the stronger the culture is. Cultural values can have a very strong influence on behaviour in organisations even when they’re not explicit. For example, you won’t find the following values written down, but each comes from a real organisation:

strong cultures

Organisational cultures in which the key values are deeply held and widely shared

- Look busy even if you're not.
- If you take risks and fail around here, you'll pay dearly for it.
- We make our product only as good as the competition forces us to.
- What made us successful in the past will make us successful in the future.

Strong cultures have a greater influence on employee behaviour than weaker cultures. The more employees accept the organisation's key values and the greater their commitment to those values, the stronger the culture is. Most organisations have moderate to strong cultures; that is, there is relatively high agreement on what's important, what defines 'good' employee behaviour, what it takes to get ahead, and so forth. The stronger a culture becomes, the more it affects what employees do and the way managers plan, organise, lead and control.[52] Also, in an organisation with a strong culture, that culture can substitute for the rules and regulations that formally guide employees. In essence, strong cultures can create predictability, orderliness and consistency without the need for written documentation.

In organisations that use value chain management or lean management, customer responsiveness is crucial. So, it's important that they can create a customer-responsive culture. A customer-responsive culture can lead to more satisfied customers *and* more satisfied employees, which in turn can affect the organisation's overall performance results. **Table 2.2** details five characteristics of customer-responsive culture and explains what managers can do to create that type of culture.[53]

Table 2.2 Creating a customer-responsive culture

Source: Stephen P. Robbins and Mary A. Coulter, Management (Subscription), 14th edn, © 2018. Reprinted and electronically reproduced by permission of Pearson Education, Inc., New York.

Managing for diversity and inclusion: The paradox of diversity

When organisations bring in diverse individuals and socialise them into the culture, a paradox is created.[54] Managers want the new employees to accept the organisation's core cultural values so that they don't have a difficult time fitting in or being accepted. At the same time, managers want to openly acknowledge, embrace and support the diverse perspectives and ideas that the new employees bring to the workplace.

Strong organisational cultures pressure employees to conform, and the range of acceptable values and behaviours is limited – hence the paradox. Organisations hire diverse individuals because of their unique strengths, yet their diverse behaviours and strengths are likely to diminish in strong cultures as people attempt to fit in.

A manager's challenge is to balance two conflicting goals: to encourage employees to accept the organisation's dominant values, and to encourage employees to accept differences. As the external environment changes and brings about change in an organisation, managers need to remember the importance of keeping diversity alive.

Review

Chapter 2 summary

2.1 Define operations management and explain why its management is important.

Every organisation transforms inputs (e.g. raw materials, information, knowledge) into outputs (goods or services). 'Operations management' refers to the design, operation and control of that transformation process, and of the operating system of the organisation. Operations management is undertaken differently in manufacturing and service organisations, but in both types of organisation it contributes to an organisation's strategy and can be used to improve productivity.

2.2 Define value chain.

Value is defined as the performance characteristics, features and attributes of goods and services for which customers are willing to give up resources, most commonly money. Organisations create this value for customers by transforming raw materials and other resources into some product or service that customers desire, when, where and how they want it. The value chain is the entire series of organisational work activities needed to transform raw materials into the final finished product or service delivered to an end user. Value activities are the activities that organisations perform using inputs, information, human resources and technology to convert inputs into outputs. Primary activities are value activities that contribute directly to the production, sale, delivery and after-

sale support of a product. Support activities are value activities that enable the execution of primary activities.

2.3 Define value chain management and describe what it entails.
Value chain management is the process of managing the sequence of activities and information along the entire value chain. Successful value chain management requires coordination and collaboration with chain members, investments in information technology, organisational processes that add value and enhance chain activities, leadership from managers, commitment from employees, and a supportive organisational culture. Value chain management can be undermined by organisational barriers, unsupportive cultural attitudes, a lack of the required capabilities, and resistance from organisational members.

2.4 Discuss contemporary issues that managers face when managing operations.
Two critical issues for managing operations in today's organisations are the use of technology to enhance operations, and managing quality in the value chain.

2.5 Define organisational culture and explain why it's important.
An organisation's culture is the system of shared values, principles, traditions and ways of doing things that influence how organisational members act. An organisation's culture defines how it interacts with its environment as it deals with two key issues: handling environmental opportunities and threats so that it can survive and prosper; and integrating and managing its people,

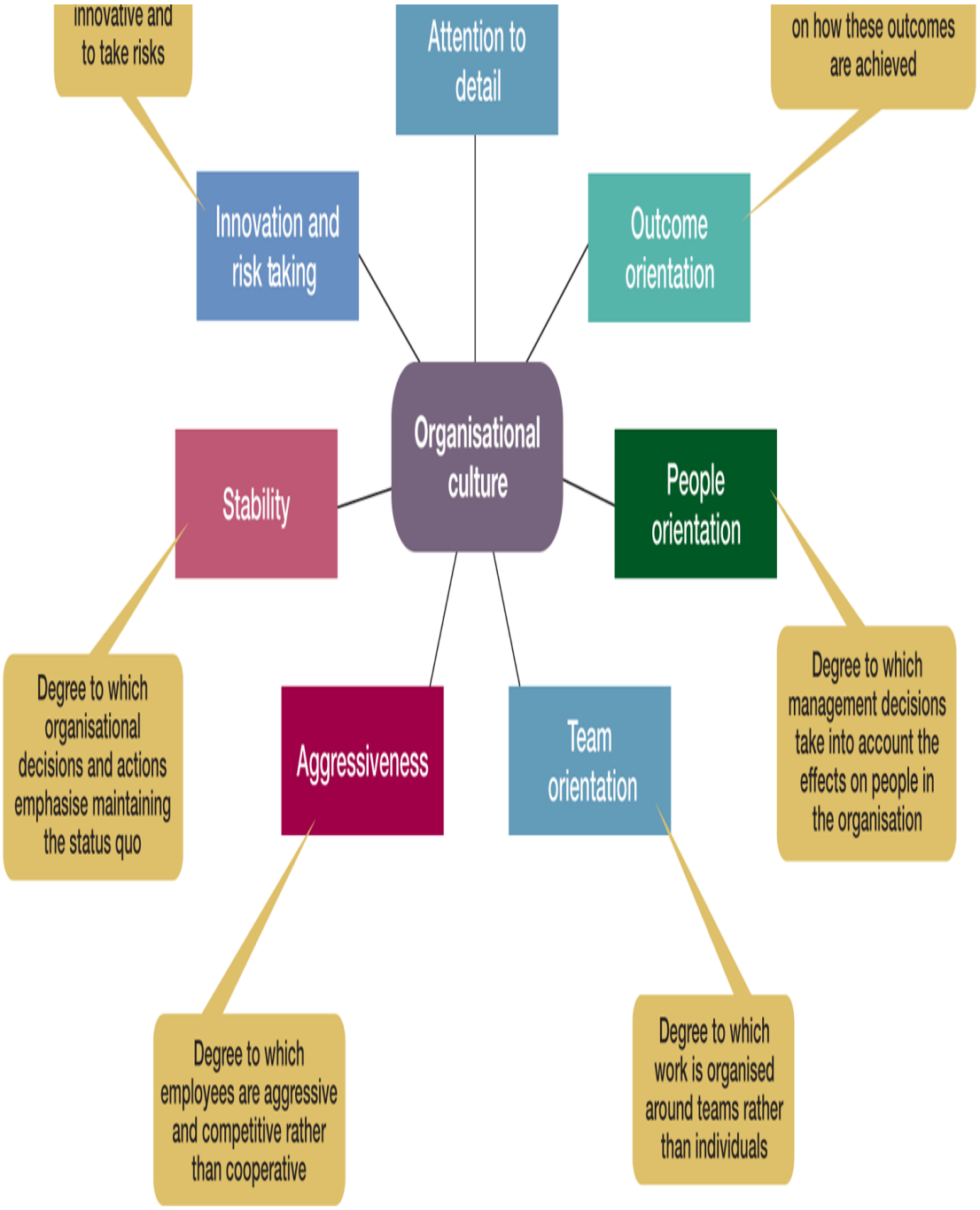
structure and activities to keep the organisation together. Cultures are assessed using seven dimensions: attention to detail, outcome orientation, people orientation, team orientation, aggressiveness, stability, and innovation and risk taking. The culture comes from the founders but is learnt by employees through stories, rituals, material symbols and language.

2.6 Describe how organisational culture affects managers.
Organisational culture affects managers in two ways: through its effect on what employees do and how they behave; and through its effect on what managers do as they plan, organise, lead and control. Strong cultures – those in which the key values are deeply held and widely shared – have more of an impact on how organisations are structured and the way work is done. Managers can focus organisational cultures on particular outcomes through employee selection and training, organisational and authority structures, leadership, and the evaluation systems and rewards used to manage the performance of organisational members.

Discussion questions

2.1 How does operations management contribute to organisational success? How might it undermine an organisation's success?
2.2 'Operations management is harder for service organisation, but is more valuable.' Do you agree with this statement? Why or why not?
2.3 Think of the last item of clothing you purchased. What value did you get from buying it? From wearing it? From owning it? (List as many forms of value as you can.) How did the organisation create those forms of value for you?
2.4 Identify some value activities that an organisation would use to (a) make a pizza, (b) service a car. For each value activity, identify how the activity uses human resources, information and technology to transform inputs into outputs.
2.5 Choose two of the success requirements for value chain management identified in **Figure 2.4** and explain how they enhance value chain operations.

Figure 2.4 Dimensions of organisational culture



2.6 Which do you think is more important for organisations: improving quality in value chains, or using lean management to minimise waste?

2.7 Is organisational culture an asset to an organisation? Explain. Can it ever be a liability? Explain.
2.8 How is an organisation's culture formed and maintained?
2.9 Discuss the impact of a strong culture on organisations and managers.
2.10 Pick two organisations that you interact with frequently (as an employee or as a customer) and assess their culture according to the dimensions shown in **Figure 2.4**.

Management skills spotlight: Understanding culture

An organisation's culture is a system of shared meaning. When you understand your organisation's culture, you know whether it encourages teamwork, rewards innovation or stifles initiative. When interviewing for a job, the more accurate a manager is at assessing the culture, the more likely they are to find a good person–organisation fit. And once inside an organisation, understanding the culture allows managers to know what behaviours are likely to be rewarded and which are likely to be punished.[55]

Experiential exercise

Successful value chain management depends on every organisation in the chain understanding what their customers value, and then making sure they focus on providing that. Sometimes, customers and organisations have quite different ideas about what is ‘actually’ valuable, and what isn’t!

In this exercise, you’re going to do a ‘value creation assessment’ on an organisation you deal with.

1. Pick an organisation from which you buy products or services.
2. Think about what you value about those products and services, and why you choose to get them from that particular organisation rather than someone else. What extra value do you get from them that you wouldn’t get if you bought them elsewhere?
3. Think about what else the organisation does or provides for you that you *don’t* value. Is there anything they do or provide that you find annoying? Pointless? Wasteful? Is there anything you have to do as a customer that you find irritating, or that feels like a waste of your time? Anything you wish they’d get rid of or stop making you do?
4. Now look back over your answers to step 3 and identify three things:

a. any activities that might actually be valued by another customer who isn't you
b. any activities that aren't creating value in themselves (primary activities) but are necessary in order to create some other form of value (secondary activities)
c. any activities that could be cut out altogether, because they don't create value themselves or indirectly help with value creation.

5. Reflect on your experience in doing this value chain assessment:
    a. Describe what happened when you did step 4. Did you identify any activities that turned out to be creating value after all, or were necessary for creating value?
    b. Interpret your experience. Why do you think it wasn't initially clear to you that these activities were valuable? How did you have to change your thinking to see what value they were creating?
    c. Evaluate your experience. What did you learn from the experience about understanding value creation?
    d. How could you apply your insights in the future? What would you do differently next time you are assessing the value created by an organisation?

Case application: Fast fashion

When Amancio Ortega opened his first Zara clothing store, his business model was simple: sell high-fashion lookalikes to price-conscious Europeans.[56] At the time, it took six months to get a new garment from the designer's drawing board onto the shop floor for a customer to purchase. What Ortega envisaged was 'fast fashion': getting trendy, desired designs to customers quickly. And that's exactly what Zara has achieved, using technology, an army of designers, and some principles of just-in-time production.

Zara is one of eight brands owned by Spanish fashion retail group Inditex. Inditex is one of the world's largest fashion retailers, operating 7,420 stores in 96 markets and with a workforce of over 174,000 people.[57] With a large global presence, Zara is tweaking its strategy to focus more on flagship brick-and-mortar stores and online expansion.[58] Despite the struggles facing the retail fashion industry, Zara has outperformed rivals even in a challenging market environment.[59]

The keys to Zara's success have been a clear and focused understanding of fashion, technology and their market, *and* the ability to adapt quickly to trends. This enables Zara to get a

new design from drawing board to store floor in approximately two weeks, and to stock stores with new designs twice a week. Each aspect of Zara's business contributes to the fast turnaround. Sales managers at company headquarters scrutinise sales at every store, monitoring 'hits' and 'misses' almost instantaneously. In-house designers work in teams sketching out new styles and deciding which fabric will provide the best combination of style and price. Once a new design is drawn, it is sent electronically to Zara's factory where a clothing sample is made. To minimise waste, computer programs arrange and rearrange clothing patterns on the massive fabric rolls before a laser-guided machine cuts them out. Zara produces most of its designs in Morocco, Portugal, Spain and Turkey, and finished garments are returned to the factory within a week. Finishing touches such as buttons, trim and detailing are added and then each garment goes through a quality check. Garments which pass are individually pressed, then garment labels indicating which country the garment will be shipped to are added. Garments proceed along a moving carousel of hanging rails via a maze of tunnels to the warehouse, a four-storey, 5 million square foot building. As the merchandise bundles move along the rails, electronic tag readers scan each garment's barcode to determine where it is being shipped to and then directs it to the right distribution area so it can be shipped to its destination. With this ultra-sophisticated distribution centre overseen by just a handful or workers, Zara ships around 60,000 items each hour and more than 2.6 million items a week.

Staying ahead of other fashion retailers who now also make ‘fast fashion’ means Zara must remain responsive to customer preferences. One way the company does this is by using Radio Frequency Identification Technology to track individual garments so it can instantly determine where garments are in the world and direct them to markets where they are in high demand.[60] In response to sustainability concerns, Zara has also introduced clothing recycling containers in its stores and introduced free in-home collection of used garments to complement home delivery of garments ordered online.[61]

Discussion questions

2.11 What inputs does Zara transform into outputs in its operations system?

2.12 How does Zara maximise the efficiency, effectiveness and productivity of its operations system?

2.13 What forms of value does Zara create in its value chain?

2.14 Which of the success factors for value chain management are illustrated in this case?

2.15 How is Zara managing for sustainability in its value chain?

Running case: Holiday home helpers: Taking the hassle out of hosting

On Mia's second day at Holiday Home Helpers, she met with Nate, the regional manager she was replacing. 'So, Nate. I'm learning a lot about what HHH does and my first impression is – it's a lot! What would you describe as the central focus of the company?'

'Well, at heart we are an accommodation service provider,' Nate replied. 'But what we do is provide services *to* accommodation owners. Our mission as a company is to provide outstanding service to our clients so they can provide an outstanding experience to their guests. That gives us two main goals to work towards. The first is that our cleaning services are hotel quality: a guest should be able to walk into any property we clean and believe they are the first people to ever stay there. The second is that our property management services make it as easy as possible for our clients to make a stay at their property a wonderful experience for their guests.'

'That's a very broad brief!' said Mia.

‘Yes,’ said Nate. ‘But it also gives us a lot of scope to tailor our services to our different clients. Some just want us to take away the hassles of managing a property – get the lawns mowed, replace light bulbs, restock the fridge, and take care of all the other day-to-day stuff. Others want to really set their properties apart from the competition, and for them we might do anything from arranging deliveries of flowers, to putting together custom food baskets.’

‘So, who are our clients? Who uses our services?’

‘Basically, property owners who can’t clean and manage their properties themselves, or just don’t want to. We have three main client groups. The first is clients who don’t live in the same area as their property. Most live interstate or overseas; some live in this region, but not in the same local area as their holiday property. The second group is clients who don’t have the time to clean and manage their property, usually because they are working or have other responsibilities such as raising families. The third group is clients who aren’t physically able to clean and manage their properties. Some of these clients are a bit older and lack the physical fitness and strength to do that. Others have holiday properties that are too large for them to clean themselves. As you can imagine, a lot of people don’t realise that when you manage a holiday home, having guests check out by 10 am and checking in from 2 pm means you only have four hours to clean and re-stock the entire house. If your last guests were particularly messy, that may

simply not be possible unless you have a whole cleaning crew!'

'So, do all of our clients just use their properties as holiday accommodation?' asked Mia.

'Most do,' said Nate. 'In this region, 80 per cent of our clients use their properties solely as holiday accommodation. The remaining 20 per cent live in their properties at least some of the time. For example, some clients live in their homes for nine months of the year but will move out for three months over the peak tourist season so they can rent their houses out. So, one of the services we will offer them is what we call a "deep clean" of the whole house after they move out and before they move back in. That's everything from washing down walls and windows, to getting carpets cleaned and fumigated, to washing out cupboards and de-clogging drains.

'The other thing is, our clients vary quite a bit in their preferences for how we clean their houses. By that I mean, some really don't care much about how we get the job done and we just use whatever cleaning products we need to. Within reason, of course. We don't use anything that presents any kind of hazard to our staff. Others care a great deal about what we use and are very particular. We have a few, for instance, who will only let us use natural or organic cleaning products. Others will only let us use products that are fully biodegradable.'

'How does that work, from a supply point of view?' asked Mia.

‘We have a standard list of products we use, most of which are actually biodegradable anyway. When we get a new client, we talk them through the list and explain why we use the ones we do. If they do have other preferences, such as only using organic products, then we offer alternatives. It means we manage quite a lot of ordering and inventory, but it comes back to giving them the best experience and giving their guests a great experience. If they want the whole house cleaned with lavender-scented baking powder, then that’s what we’ll do!’

Discussion questions

2.16 Describe the operations system that HHH uses in its cleaning services. What inputs does it use? What outputs does it produce? What sorts of processes would it use in that transformation process?

2.17 What forms of value is HHH creating for its clients? Describe the value chain it is using to create that value. Include the value activities, the resources, information and technology it uses to do that.

2.18 How would HHH and its clients use the six value chain success factors described in the chapter to create a great accommodation experience for a guest?

2.19 How could HHH manage the quality of its value chain?

2.20 What sort of values do you think would define HHH’s organisational culture?

2.21 HHH needs to be responsive to both clients and guests. How could it create a customer-responsive

culture?

Endnotes

1 ‘Opening a café and building a brand’, *Business Victoria*, https://www.business.vic.gov.au/case-studies/opening-a-cafe-building-a-brand, accessed 12 May 2020.

2 J. Ordonez, ‘McDonald’s to cut the cooking time of its French fries’, *Wall Street Journal*, 19 May 2000, p. B2.

3 Classic Concepts in Today’s Organisations feature based on ‘Honorary Members from Impressive Lineup of Quality Thinkers’, *Quality Progress*, March 2011, p. 17; ‘W. Edwards Deming’, *Quality Progress*, November 2010, p. 17; R. Aguayo, *Dr Deming: The American Who Taught the Japanese About Quality* (New York: Fireside Press, 1991); M. Walton, *The Deming Management Method* (New York: Penguin Group, 1986); and W. E. Deming, ‘Improvement of Quality and Productivity Through Action by Management’, *National Productivity Review*, Winter 1982–3, pp. 12–22.

4 M. E. Porter, ‘The Value Chain and Competitive Advantage’, in D. Barnes (ed.), *Understanding Business Processes* (London: Routledge, 2001), pp. 50–66.

5 M. E. Porter, ‘The Value Chain and Competitive Advantage’, in D. Barnes (ed.), *Understanding Business Processes* (London: Routledge, 2001), pp. 50–66.

6 M. E. Porter, ‘The Value Chain and Competitive Advantage’, in D. Barnes (ed.), *Understanding Business Processes* (London: Routledge, 2001), pp. 50–66.

7 M. E. Porter, 'The Value Chain and Competitive Advantage', in D. Barnes (ed.), *Understanding Business Processes* (London: Routledge, 2001), pp. 50–66.

8 Q. H. Soon and Z. M. Udin, 'Supply Chain Management from the Perspective of Value Chain Flexibility: An Exploratory Study', *Journal of Manufacturing Technology Management*, May 2011, pp. 206–56; G. Soni and R. Kodali, 'A Critical Analysis of Supply Chain Management Content in Empirical Research', *Business Process Management*, April 2011, pp. 238–56; and J. H. Sheridan, 'Managing the Value Chain', *IndustryWeek*, 6 September 1999, pp. 1–4.

9 See, for example, J. Jusko, 'Procurement – Not All Dollars and Cents', *IndustryWeek*, 4 April 2002.

10 D. Bartholomew, 'The Infrastructure', *IndustryWeek*, 6 September 1999, p. 1.

11 T. Vinas, 'A Map of the World: IW Value-Chain Survey', *IndustryWeek*, September 2005, pp. 27–34.

12 G. Taninecz, 'Forging the Chain', *IndustryWeek*, 15 May 2000, pp. 40–6.

13 S. Leibs, 'Getting Ready: Your Suppliers', *IndustryWeek*, 6 September 1999.

14 See, for example, L. Harrington, 'The Accelerated Value Chain: Supply Chain Management Just Got Smarter, Faster and More Cost-Effective, Thanks to a Groundbreaking Alliance between Intel and Technologies', *IndustryWeek*, April 2002, pp. 45–51.

15 See, for example, C. Lunan, 'Workers Doing More in Less Time', *Charlotte Observer*, 1 June 2002, p. D1.

16 L. Harrington, 'The Accelerated Value Chain: Supply Chain Management Just Got Smarter, Faster and More Cost-Effective,

Thanks to a Groundbreaking Alliance between Intel and Technologies', *IndustryWeek*, April 2002, pp. 45–51.

17 L. Harrington, 'The Accelerated Value Chain: Supply Chain Management Just Got Smarter, Faster and More Cost-Effective, Thanks to a Groundbreaking Alliance between Intel and Technologies', *IndustryWeek*, April 2002, pp. 45–51; and J. H. Sheridan, 'Managing the Value Chain', *IndustryWeek*, 6 September 1999, pp. 1–4.

18 J. H. Sheridan, 'Managing the Value Chain', *IndustryWeek*, 6 September 1999, p. 3.

19 J. H. Sheridan, 'Managing the Value Chain', *IndustryWeek*, 6 September 1999, pp. 2–3; and D. Bartholomew, 'The Infrastructure', *IndustryWeek*, 6 September 1999, p. 1.

20 G. Taninecz, 'Forging the Chain', *IndustryWeek*, 15 May 2000, pp. 40–6.

21 G. Taninecz, 'Forging the Chain', *IndustryWeek*, 15 May 2000, pp. 40–6.

22 R. E. Slone, J. T. Mentzer and J. P. Dittmann, 'Are You the Weakest Link in Your Supply Chain?', *Harvard Business Review*, September 2007, **https://hbr.org/2007/09/are-you-the-weakest-link-in-your-companys-supply-chain**, accessed 22 April 2020.

23 G. Taninecz, 'Forging the Chain', *IndustryWeek*, 15 May 2000, pp. 40–6.

24 D. Drickhamer, 'On Target', *IndustryWeek*, 6 October 2000, pp. 111–12.

25 'Top Security Threats and Management Issues Facing Corporate America: 2003 Survey of Fortune 1000 Companies', ASIS International and Pinkerton, **www.asisonline.org**.

26 N. A. Katz, *Detecting and Reducing Supply Chain Fraud* (Oxford, UK: Routledge, 2016).

27 'What is 3D Printing', **https://3dprinting.com/what-is-3d-printing/**, accessed 27 March 2020.

28 J. Flynt, 'A Detailed History of 3D Printing', **https://3dinsider.com/3d-printing-history/**, accessed 28 March 2020.

29 'What is 3D Printing', **https://3dprinting.com/what-is-3d-printing/**, accessed 27 March 2020.

30 Examples in this paragraph sourced from 'What is 3D Printing', **https://3dprinting.com/what-is-3d-printing/**, accessed 27 March 2020.

31 R. Ahmed, '4 Famous Restaurants that Use 3D Printers', **https://3dprinting.com/food/4-famous-restaurants-that-use-3d-printers/**, accessed 27 March 2020.

32 Examples in this paragraph taken from 'What is 3D Printing', **https://3dprinting.com/what-is-3d-printing/**, accessed 27 March 2020.

33 I. Gahren, 'How 3D Printing is Revolutionalising Disaster Relief', **twentythirty.com**, 27 April 2018, https://twentythirty.com/how-3d-printing-is-revolutionizing-disaster-relief/on, accessed 30 April 2020; and H. R. Mnedoza, '3D Printing Part of Sustainable Humanitarian Aid to Refugees', *3D* **print.com**, 25 November 2015, **https://3dprint.com/107627/3d-printing-sustainable-aid/on**, accessed 30 April 2020.

34 A. Mital, A. Desai, A. Subramanian and A. Mitai, *Product Development: A Structured Approach to Design and Manufacture* (Waltham, MA: Elsevier, 2008); and V. A. Zeithaml, A. Parasuraman

and L. L. Berry, *Delivering Service Quality: Balancing Customer Perceptions and Expectations* (New York: The Free Press, 2010).

35 T. Vinas, 'Six Sigma Rescue', *IndustryWeek*, October 2004, pp. 61–2.

36 G. Hasek, 'Merger Marries Quality Efforts', *IndustryWeek*, 21 August 2000, pp. 89–92.

37 M. Arndt, 'Quality Isn't Just for Widgets', *BusinessWeek*, 22 July 2002, pp. 72–3.

38 M. Arndt, 'Quality Isn't Just for Widgets', *BusinessWeek*, 22 July 2002, pp. 72–3.

39 R. Charron, H. J. Harrington, F. Voehl and H. Wiggin, *The Lean Management System Handbook* (New York: CRC Press, 2015).

40 See, for example, G. J. Plemert, *Lean Management Principles for Information Technology* (Boca Raton, FL: CRC Press, 2011); D. R. Ball and J. Meleyeff, 'Lean Management of Environmental Consulting', *Journal of Management in Engineering*, vol. 19, no. 1 (January 2003), pp. 17–27; and B. McIntosh, B. Sheppy and I. Cohen, 'Lean Management in the Health Sector', *International Journal of Health Care Quality Assurance*, vol. 27, no. 6 (2014), pp. 482–92.

41 M. S. Begam, R. Swamynathan and J. Sekkizhar, 'Current Trends on Lean Management: A Review', *International Journal of Lean Thinking*, December 2013.

42 D. Do, 'The Five Principles of Lean', **http://theleanway.net/The_Five_Principles-Of-Lean**, 5 August 2017, accessed 27 March 2019.

43 Porsche examples taken from R. Charron, H. J. Harrington, F. Voehl and H. Wiggin, *The Lean Management System Handbook*

(New York: CRC Press, 2015).

44 G. Hofstede, *Culture's Consequences*: *International Differences in Work-Related Values* (Newbury Park, CA: Sage, 1980).

45 A. Bryant, 'On a Busy Road, a Company Needs Guardrails: an interview with Christopher J. Nassetta, president and chief executive of Hilton Worldwide', *New York Times Online*, 13 October 2012.

46 E. H. Schein, *Organizational Culture and Leadership* (San Francisco: Jossey Bass, 1985).

47 J. A. Chatman and K. A. Jehn, 'Assessing the Relationship between Industry Characteristics and Organizational Culture: How Different Can You Be?', *Academy of Management Journal*, June 1994, pp. 522–53; and C. A. O'Reilly III, J. Chatman and D. F. Caldwell, 'People and Organizational Culture: A Profile Comparison Approach to Assessing Person–Organization Fit', *Academy of Management Journal*, September 1991, pp. 487–516.

48 P. Guber, 'The Four Truths of the Storyteller', *Harvard Business Review*, December 2007, pp. 53–9; S. Denning, 'Telling Tales', *Harvard Business Review*, May 2004, pp. 122–9; T. Terez, 'The Business of Storytelling', *Workforce*, May 2002, pp. 22–4; J. Forman, 'When Stories Create an Organization's Future', *Strategy and Business*, Second Quarter 1999, pp. 6–9; C. H. Deutsch, 'The Parables of Corporate Culture', *New York Times*, 13 October 1991, p. F25; and D. M. Boje, 'The Storytelling Organization: A Study of Story Performance in an Office-Supply Firm', *Administrative Science Quarterly*, March 1991, pp. 106–26.

49 S. Denning, 'Telling Tales', *Harvard Business Review*, May 2004, pp. 122–9; and A. M. Pettigrew, 'On Studying Organizational

Cultures', *Administrative Science Quarterly*, December 1979, p. 576.

50 D. Drickhamer, 'Straight to the Heart', *IndustryWeek*, October 2003, pp. 36–8.

51 E. H. Schein, 'Organizational Culture', *American Psychologist*, February 1990, pp. 109–19.

52 E. H. Schein, *Organizational Culture and Leadership* (San Francisco: Jossey-Bass, 1985), pp. 314–15.

53 Based on J. McGregor, 'Customer Service Champs', *BusinessWeek*, 3 March 2008, pp. 37–57; B. Schneider, M. G. Ehrhart, D. M. Mayer, J. L. Saltz and K. Niles-Jolly, 'Understanding Organization–Customer Links in Service Settings', *Academy of Management Journal*, December 2006, pp. 1017–32; B. A. Gutek, M. Growth and B. Cherry, 'Achieving Service Success through Relationships and Enhanced Encounters', *Academy of Management Executive*, November 2002, pp. 132–44; K. A. Eddleston, D. L. Kidder and B. E. Litzky, 'Who's the Boss? Contending with Competing Expectations from Customers and Management', *Academy of Management Executive*, November 2002, pp. 85–95; S. D. Pugh, J. Dietz, J. W. Wiley and S. M. Brooks, 'Driving Service Effectiveness through Employee Customer Linkages', *Academy of Management Executive*, November 2002, pp. 73–84; L. A. Bettencourt, K. P. Gwinner and M. L. Mueter, 'A Comparison of Attitude, Personality and Knowledge Predictors of Service Oriented Organizational Citizenship Behaviors', *Journal of Applied Psychology*, February 2000, pp. 29–41; M. D. Hartline, J. G. Maxham III and D. O. McKee, 'Corridors of Influence in the Dissemination of Customer Oriented Strategy to Customer Contact Service Employees', *Journal of Marketing*, April 2002, pp. 35–50; L. Lengnick-Hall and C. A.

Lengnick-Hall, 'Expanding Customer Orientation in the HRM Function', *Human Resource Management*, Fall 1999, pp. 201–14; M. D. Hartline and O. C. Ferrell, 'The Management of Customer Contact Service Employees: An Empirical Investigation', *Journal of Marketing*, October 1996, pp. 52–70; and M. J. Bittner, B. H. Booms and L. A. Mohr, 'Critical Service Encounters: The Employee's Viewpoint', *Journal of Marketing*, October 1994, pp. 95–106.

54 Managing for Diversity and Inclusion box based on C. Lindsay, 'Paradoxes of Organizational Diversity: Living within the Paradoxes', in L. R. Jauch and J. L. Wall (eds), *Proceedings of the 50th Academy of Management Conference* (San Francisco, 1990), pp. 374–8.

55 Based on A. L. Wilkins, 'The Culture Audit: A Tool for Understanding Organizations', *Organizational Dynamics,* Autumn 1983, pp. 24–38; H. M. Trice and J. M. Beyer, *The Culture of Work Organizations* (Upper Saddle River, NJ: Prentice Hall, 1993), pp. 358–62; and D. M. Cable, L. Aiman-Smith, P. W. Mulvey and J. R. Edwards, 'The Sources and Accuracy of Job Applicants' Beliefs about Organizational Culture', *Academy of Management Journal*, December 2000, pp. 1076–85.

56 C. Bjork, 'Zara Build its Business around RFID', *Wall Street Journal*, 17 September 2014, p. B1+; D. Roman and W. Kemble-Diaz, 'Owner of Fast Fashion Retailer Zara Keeps up Emerging Markets Push', *Wall Street Journal*, 14 June 2012, p. B3; press release: 'Inditex achieved net sales of 9709 million euros, an increase of 10%', **www.inditex.com**, 22 February 2012; C. Bjork, '"Cheap Chic" Apparel Sellers Heat up US Rivalry on Web', *Wall Street Journal*¸ 6 September 2011, p. B1+; A. Kenna, 'Zara Plays Catch-up with Online Shoppers', *Bloomberg BusinessWeek*, 29 August –

4 September 2011, pp. 24–5; K. Girotra and S. Netessine, 'How to Build Risk into Your Business Model', *Harvard Business Review*, May 2011 pp. 100–5; M. Dart and R. Lewis, 'Break the Rules the Way Zappos and Amazon Do', *Bloomberg BusinessWeek Online*, 29 April 2011; K Cappell, 'Zara Thrives by Breaking All the Rules', *BusinessWeek*, 20 October 2008, p. 66; and C. Rohwedder and K. Johnson, 'Pace-Setting Zara Seeks More Speed to Fight Its Rising Cheap-Chic Rivals', *Wall Street Journal*, 20 February 2008, p. B1+.

57 Inditex, 'Who We Are', **https://www.inditex.com/en/about-us/who-we-are**, accessed 21 March 2020.

58 N. Khan, 'Tech Puts Fast Fashion on Steroids', *Wall Street Journal*, 10 April 2018, p. B7; J. Neumann, 'Zara Sharpens Focus on Digital', *Wall Street Journal*, 15 March 2018, p. B3; and P. Kowsmann, 'Zara's New Retailing Focus: Bigger Bricks, More Clicks', *Wall Street Journal*, 16 March 2017, p. B3.

59 J. Neumann, 'Intidex Feels Profit Pressures But Still Skirts Industry Woes', *Wall Street Journal*, 14 December 2017, p. B3.

60 'Zara', **https://www.inditex.com/en/about-us/our-brands/zara**, accessed 21 March 2020.

61 'Zara', **https://www.inditex.com/en/about-us/our-brands/zara**, accessed 21 March 2020.

Chapter 3 The external organisational environment

Fact or fiction?

Global events only affect global companies.

Fiction

In our globalised and interconnected world, ***global events can affect managers and organisations everywhere, no matter how large or small***. Some events are global because they occur in one location but their impacts are felt around the world. For instance, when Australia was ravaged by one of its worst ever bushfire seasons in the summer of 2019–20, the smoke haze crossed the Pacific Ocean and affected the air quality in New Zealand, Argentina and Chile.[1] Other events, such as the COVID-19 coronavirus pandemic, are global because they affect the whole world. But even then, as we explore in the opening case study, people and organisations in

different parts of the world may experience these events very differently. In today's turbulent and 'connected' world, both global and local environmental changes can have widespread and far-reaching impacts, so managers need to be aware of the impact of the external environment on their organisation.

No successful organisation, or its managers, can operate without understanding and dealing with the dynamic environment in which it operates. One of the biggest mistakes managers make today is failing to adapt to the changing world. Organisations that are bound by tradition and don't (or refuse to) change are less and less likely to survive the turbulence in today's world. To better understand this, we need to look at the important external environmental forces that are impacting the way organisations are managed today. In this chapter, we examine the two components of the external environment: the general environment that affects all organisations and the specific environment of each individual organisation. We then consider how changing environments influence managers and organisations.

Learning outcomes

3.1 Explain what the external environment is and discuss why it is important.
3.2 Explain what factors make up an organisation's general environment.
3.3 Explain what factors make up an organisation's specific environment.
3.4 Discuss how the external environment affects managers.

Changing the world as we know it

When the COVID-19 pandemic forced organisations across Australia to scale back or stop their operations, hundreds of thousands of people lost work. For Centrelink, the government agency responsible for welfare payments, this meant more work than ever. In the first six months of the pandemic, Centrelink oversaw the payment of unemployment benefits to more than 1.6 million people.[2]

Jenny Evans/Stringer/Getty Images

To see just how powerful an effect the external environment can have on organisations, we need look no further than the COVID-19 pandemic.[3] The virus originated in Wuhan, China, in late December 2019, but within a month, nearly 8,000 cases had been confirmed in 18 countries. By mid-March it had been

declared a pandemic; by mid-June it was a truly global phenomenon, affecting every country around the world. While people and countries are dealing with the same virus, its impact, the responses being deployed and the effects of both on people, organisations and governments vary greatly between different localities. Nevertheless, less than six months after the first case was diagnosed, COVID-19 and the measures taken to manage its impact have brought about changes in every single element of the general environment.

As a global phenomenon, COVID-19 has required a global response. Entities such as the World Health Organization (WHO) have been crucial actors in this because of their capacity to collect and disseminate information around the world about how the pandemic is unfolding at the national, regional and global level. The pandemic has also created an urgent and global need for new technologies for dealing with the disease. This includes medical technologies to test for and treat the virus, and safety technologies such as hand sanitiser, surface disinfectants and face masks. Social isolation measures, such as mandated work-from-home arrangements, have caused an explosion in the demand for and use of webcams and webconferencing technologies. For platforms like Zoom, the pandemic created unprecedented demand and business opportunities. In fact, between January and October 2020, the share price for Zoom increased from A$93 to A$715![4]

In countries that closed non-essential businesses to enable social isolation and limit contagion, the economic impacts have been profound. In Australia, for example, the pandemic has produced job losses, declines in tax revenues from both individuals and businesses, and massive government expenditures on employment support and welfare payments such as JobKeeper and JobSeeker. But it has also stimulated spending on items such as personal protective equipment, sanitation items and groceries. Some industries, including grocery retail, have experienced unprecedented booms; others, such as tourism and hospitality, have been devastated.

Political impacts of the pandemic have included the need for all levels of government to develop new policies, procedures and regulations to deal with the virus and the risks it poses. This has necessitated coordination and collaboration between political parties and different levels of government in order to share information, generate new insights and enable quick and decisive decision making and decision implementation. However, it has also created political tensions and conflict when local conditions necessitated different local responses, such as when the states adopted different policies about border closures and travel bans.

Arguably the most powerful impacts of the pandemic have been, and will be, sociocultural. Because COVID-19 is more likely to be fatal to people who are older or have other health complications, demographic conditions have powerfully influenced how populations have been impacted by the rapid

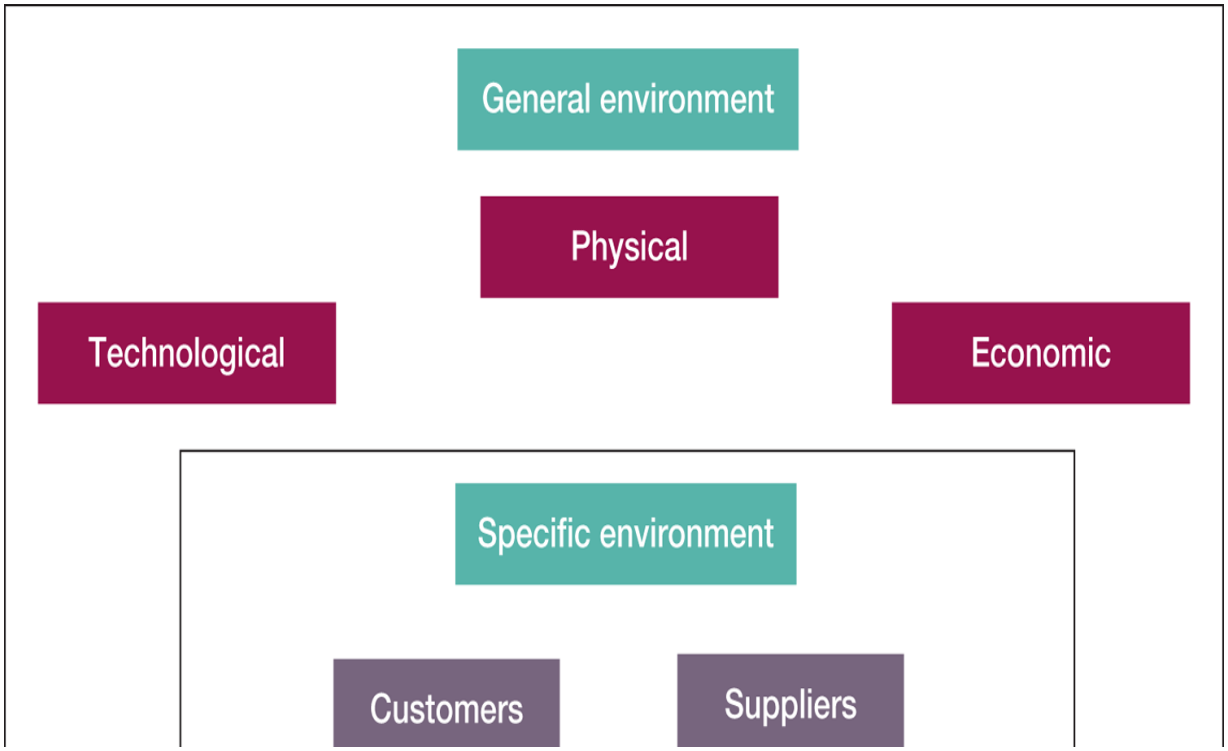
spread of the virus. Age, type of employment, geographic dispersal, income and socioeconomic status have all directly influenced the infection and mortality risk profiles of populations. Cultural characteristics such as attitudes and behaviours related to hygiene, social distancing and compliance with mandated safety measures have affected the physical and mental health risks posed by the pandemic. But movements such as the Kindness Pandemic have also seen people around the world create forms of support and connection to help each other. It's unclear what the 'new normal' will be in a world with COVID-19, but uncertainty and change seem likely to be key characteristics of the environment for years to come.

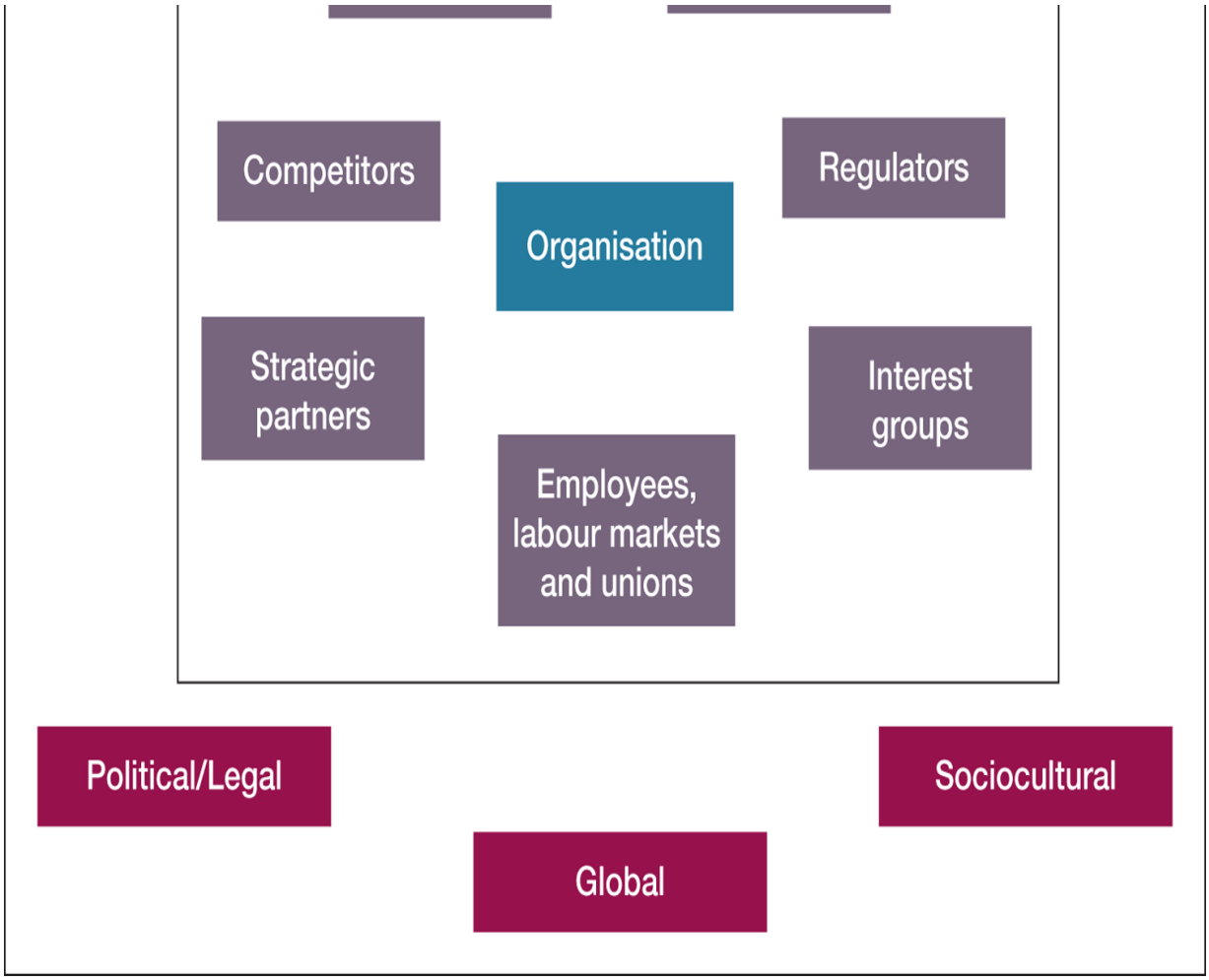
What is the external environment of an organisation?

Learning outcome 3.1 Explain what the external environment is and discuss why it is important.

The **external organisational environment** consists of the factors, forces, situations, events and conditions outside the organisation's boundaries that can potentially affect it.[5] The external environment is made up of two components: the general environment and the specific environment (see **Figure 3.1**).

Figure 3.1 The external organisational environment





external organisational environment

The forces and conditions outside the organisation's boundaries that can potentially affect it

What is the general environment of an organisation?

> Learning outcome 3.2 Explain what factors make up an organisation's general environment.

The **general environment** consists of the broad sociocultural, technological, economic, political/legal, physical and global conditions in the society in which the organisation operates.[6] Changes in any dimension of the general environment will eventually affect all organisations, typically by influencing their specific environments. As the dimensions of the general environment reflect major societal trends, a single organisation's ability to directly affect them is very limited.

general environment

The sociocultural, technological, economic, political/legal, physical and global conditions in the society in which the organisation operates

> Organisations can't control the general environment; they can only **manage its impact**.

The **sociocultural dimension of the general environment** includes the cultural characteristics and demographic conditions of the society in which the organisation operates.[7] **Cultural characteristics** include the customs, values, tastes, attitudes and behaviours in a particular society. **Demographic conditions** are the physical characteristics of the population, such as gender, average age, level of education, geographic dispersal, income and household composition. Sociocultural conditions also include the racial and ethnic characteristics of the population. We define **race** as the biological heritage (including physical characteristics such as one's skin colour and associated traits) that people use to identify themselves. **Ethnicity** is related to race, but it refers to social traits – such as one's cultural background or allegiance – that are shared by a human population.

sociocultural dimension of the general environment

The cultural characteristics and demographic conditions of the society in which the organisation operates

cultural characteristics

The customs, values, tastes, attitudes and behaviours in a particular society

demographic conditions

The physical characteristics of the population, such as gender, average age, level of education, geographic dispersal, income and household composition

race

Social groupings of people based on physical and biological characteristics

ethnicity

Social groupings of people based on cultural characteristics and traditions

Sociocultural elements determine the products, services and types of organisational behaviour that are valued in a society. For example, changing cultural values about climate change have created a demand for products and services that reduce carbon emissions. Demographic characteristics define the size and attributes of the population, influencing the demand for products and services and the type of labour available for staffing organisations. For example, the proportions of people at certain stages in human life cycles can constrain decisions and actions taken by managers of businesses, governments, educational institutions and other organisations. Consider these demographic predictions for the future:

- Recent analysis of birth rates shows that more than 80 per cent of babies being born worldwide are from Africa and Asia.[8]
- Two-thirds of India's 1.2 billion people are below 35 years of age.[9]
- By 2050, it's predicted that China will have more people aged 65 and older than the rest of the world combined.[10]
- For most of human history, individuals over the age of 65 have never exceeded 3–4 per cent of a country's population. By 2050, however, this number could potentially reach 25 per cent, on average.[11]

Just imagine how these population trends are likely to impact global organisations and the way managers manage.

HUMAN RIGHTS
ARE MY PRIDE

When employees are able to be authentic and open about their sexuality in a supportive and inclusive work environment, diversity, wellbeing, productivity and retention all improve.

Samantha Ohlsen/Alamy Stock Photo

Sociocultural elements also affect workplace diversity. **Workforce diversity** refers to ways in which people in a workforce are similar to and different from one another. This includes diversity in gender, race, ethnicity, physical abilities, mental health, sexual orientation and gender identity, socioeconomic background (social class and income-related factors), functional or professional speciality, physical attractiveness, obesity/thinness, job seniority or intellectual abilities. Increasing diversity in societies and workplaces raises a number of issues for managers and organisations. For example, in Australia today, women comprise 46.4 per cent of the workforce.[12] Yet, organisations still face gender diversity issues such as the gender pay gap, career start and progress, and misconceptions about whether women perform their jobs as well as men do. Similarly, many LGBTIQ people – lesbian, gay, bisexual, transgender, intersex and queer people – experience homophobic attitudes in their workplaces, ranging from indifference and intolerance to anger, contempt and fear.[13] Although a recent study found that 50 per cent of surveyed Australian workplaces were free from homophobia, 50 per cent of respondents said that, within the previous year, they had heard homophobic remarks in their workplace and one in seven respondents said that they had personally experienced homophobia-related harassment while at work.[14] Another recent study found that 60 per cent of LGBTIQ people in Australia experience verbal homophobic

abuse in the workplace, while 20 per cent experience physical violence.[15] On a more positive note, however, research has also found that when LGBTIQ staff are able to be 'openly out', organisational productivity increases by between 5 and 30 per cent and retention rates improve by 10 per cent.[16]

workforce diversity

Ways in which people in a workforce are similar to and different from one another in terms of gender, age, race, sexual orientation, ethnicity, cultural background, and physical abilities and disabilities

Ability and disability are another common form of diversity in today's organisations. Nearly 20 per cent of the Australian population have a physical disability that affects their mobility, communication, ability to care for themselves, or their participation in education and employment.[17] Mental health conditions such as depression, anxiety and post-traumatic stress disorder are also widespread; the WHO estimates that 300 million people worldwide are affected by depression.[18] By law, managers must provide accommodations for physical and mental health conditions so that individuals with disabilities can perform their jobs (see the chapter on understanding individual behaviour). But such accommodations also need to be

perceived as equitable by those who don't have disabilities. Managing diversity is often a balancing act, but it's important for managers and organisations to explore the strengths that all types of employees bring to an organisation and the barriers they face in contributing fully to organisational efforts.

The **technological dimension of the general environment** comprises the knowledge, tools and methods used to convert resources (e.g. raw materials, information and labour) into products and services.[19] This dimension includes technological and scientific advancements in society at large, as well as specific industries.[20] Technological advancements generally relate to changes in product or process technologies. Product technological changes lead to the development of entirely new goods and services, or to refinements in the features and capabilities of existing products. For example, new solar cell technologies have led to the development of a notebook computer bag that uses solar energy to recharge your notebook, mobile or iPod while you walk![22] Process technological changes alter how organisations operate. For example, the barcode readers used at supermarket checkouts have changed inventory management because they instantly update inventory systems to reorder products that have been sold.[23] Robots are now also being used in place of human labour to build machinery and mine natural resources, with one advantage being that robots can work in circumstances that would be unsafe for humans (e.g. in underground mines).[24]

technological dimension of the general environment

The knowledge, tools and methods used to convert resources into products and services

Managing for diversity and inclusion: Does your organisation need a diversity climate change?

> An organisation's 'diversity climate' refers to how its members perceive that it treats people with diverse characteristics.[21] For instance, is it inclusive and supportive to everyone? Or are people with certain characteristics treated more favourably than others? Are people with different characteristics treated equally? Does the organisation make efforts to integrate people from minority groups into the workforce so they feel supported and have equal access to opportunities?
>
> An organisation's diversity climate is multidimensional. It includes the overall diversity of the workforce, and the extent to which diversity and inclusion are consciously managed, including whether active steps are taken to eliminate discrimination and bias. But it also includes the extent to which diverse input is valued, whether merit determines who gets hired and promoted, who gets access to specific opportunities, and whether feedback is provided fairly. So, by examining these dimensions we can determine how supportive the organisation's diversity climate is, and also how it can be improved. And it's worth the effort: studies have shown that an

> organisation's diversity climate directly influences employee loyalty and their intention to stay.

Another area in which technology has had a major impact is the use of information technology to create flexibility in work location. With notebook and desktop computers, tablets, smartphones, organisational intranets and other IT tools, organisational members who work mainly with information can do that work from any place at any time. As we'll discuss in the chapter on organisational structure and design, this has also changed the way that managers manage.

The **economic dimension of the general environment** relates to the general economic health of the country in which the organisation operates.[25] The economic health of a country influences everything from jobs, incomes, and prices of natural resources and consumer goods, to stock market valuations and business cycles. This dimension includes the type of economic system that's in effect, the country's current economic conditions and its economic cycles. Economic systems can vary from capitalist to socialist. In a **capitalist economy**, individuals or corporations own the means of production and market forces operate; by contrast, in a **socialist economy**, a central government owns the means of production and plans all economic activity.[26] Most national economies combine some elements of each form. For example, Australia and New Zealand are mostly capitalist economies, but their governments do have some market control. The People's Republic of China is closer to the socialist end of the spectrum but is becoming more capitalist.[27]

economic dimension of the general environment

The general economic health of the country in which the organisation operates

capitalist economy

An economic system in which individuals or corporations own the means of production and market forces operate

socialist economy

An economic system in which a central government owns the means of production and plans all economic activity

Current economic conditions include elements such as the current interest rates, levels of inflation and levels of unemployment. These elements affect organisations by influencing costs, prices and demand for products and services. Economic conditions cycle through periods of growth and decline. The speed and strength of economic

cycles differ for different industry segments and for the general economy, so understanding which stage of the cycle current conditions reflect and how quickly that might change is very important for effective planning.[28] Moreover, in today's globally interconnected world, managers need to understand economic conditions in specific individual countries and how those conditions might affect other economic systems, because the consequences can be powerful and wide-ranging. For example, digital currencies (also called virtual currencies or cryptocurrencies) are growing explosively and one consequence has been that in countries such as Sweden the use of cash has declined rapidly.[29]

The **political/legal dimension of the general environment** consists of the legal and governmental systems within which an organisation operates.[30] This includes the general conditions and stability of the political system, government regulation of organisational behaviour, and the impact of government spending on the economic environment.[31] Regulation affects managerial planning and decision making by determining the choices available to managers and forcing organisations to behave in ways that reflect societal values and preferences. For example, federal, state and local governments pass legislation that dictates how organisations must handle issues such as work health and safety (WHS), environmental protection, competition, consumer protection and product safety, import and export activities, and employment practices. Government spending also influences the opportunities and threats faced by organisations. For example, if governments increase spending on pensions, retailers benefit from pensioners having higher

discretionary incomes. However, if governments reduce spending on infrastructure, then this reduces business opportunities in the construction industry.

political/legal dimension of the general environment

The legal and governmental systems within which an organisation operates, including the general conditions and stability of the political system, government regulation and government spending

The **physical dimension of the general environment** of an organisation includes its geographic location(s), and the biological, ecological, constructed, climate and natural resources elements of its surroundings.[32] These are generally grouped into two categories: the natural environment and the built environment.

physical dimension of the general environment

The natural and constructed elements of an organisation's physical surroundings, including

biological, ecological, constructed, climate and natural resources

The natural environment includes elements such as the types and quality of soil and water and other natural resources (e.g. gas, coal, oil, minerals) that exist in a location. It also includes the ecological elements such as the types of plants, animals, microbes and viruses found there. These and other geographic factors determine other factors in the physical environment such as the climate, weather conditions, and presence of naturally occurring phenomena such as earthquakes, tsunamis and volcanic eruptions. All of these elements can affect organisations by influencing the availability of resources needed to produce goods and services, the risk of natural disasters such as bushfires and floods, and the physical conditions experienced by workers and customers. For example, during the 2019–20 Australian summer, thousands of businesses across eastern Australia were affected when bushfires destroyed properties, closed roadways and caused such bad air pollution people were forced to stay inside.

The built environment includes any elements created or influenced by humans. These include transport infrastructure such as roads, bridges, ports and airports, electrical and communications networks, infrastructure used to create, transport and treat drinking water and sewerage, and buildings for housing people and organisations. The built environment influences organisations by affecting such things as the ways in which inputs can be transported from suppliers and

products transported to customers, the availability and cost of water, energy and other resources needed to operate the organisation, and the facilities available to house the organisation and its workers.

> **Managing environmental sustainability** = minimising the negative impacts of the built environment on the natural environment.

The **global dimension of the general environment** consists of factors that operate across national boundaries. The global dimension includes events or changes that originate in foreign countries (such as the COVID-19 pandemic) as well as physical and institutional forces of an international scale, such as global warming and the internet. International forces may affect organisations directly, or exert an indirect influence by affecting sociocultural, technological and economic trends.[33]

global dimension of the general environment
Factors that operate across national boundaries

Global forces are increasingly influential because advances in transportation and communications technology have essentially eliminated geographic borders as boundaries to organisational activity, meaning that any organisation can become a global player.[34]

Organisations are considered global if they exchange goods and services with consumers in other countries, if they use managerial and technical employee talent from other countries, or if they use financial sources and resources outside their home country, which is known as financial globalisation.[35] Global operation means that organisations have to adapt to local conditions in each country and to worldwide influences. Consequently, managers need to understand how global forces influence every geographic region in which they operate, how forces differ in each geographic location and the implications of those differences.

All countries have different values, morals, customs, political and economic systems, and laws, all of which can affect how a business is managed. For example, laws about industrial espionage, restraint of trade, working conditions and the rights of workers may vary considerably in different countries.

The most important and challenging differences for managers to understand, however, are those related to a country's social context or culture. Managers need to understand societal issues that might affect business operations in another country and recognise that organisational success can come from a variety of managerial practices. One way to understand differences in cultural environments is to analyse the dimensions of national culture. Geert Hofstede developed one of the most widely referenced approaches for analysing cultural variations when he surveyed more than 116,000 IBM employees in 40 countries about their work-related values. He found that managers and employees vary on four dimensions of

national culture: power distance, uncertainty avoidance, individualism, and masculinity.[36] Hofstede's work has provided the basic framework for differentiating among national cultures and has since been extended by the **Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program**, an ongoing cross-cultural investigation of leadership and national culture. Using data from more than 17,000 managers in 62 societies around the world, the GLOBE research team (led by Robert House) has identified nine dimensions on which national cultures differ: power distance, uncertainty avoidance, social emphasis on collectivism, family and organisational collectivism, gender egalitarianism, assertiveness, future orientation, performance orientation and humane orientation.[37] The GLOBE studies confirm that Hofstede's dimensions are still valid, and extend his research by providing an expanded and updated measure of countries' cultural differences. (See **Table 3.1** for countries that are high in the identified dimensions.)

Table 3.1 Countries high in dimensions of national culture developed by the global leadership and organizational behavior effectiveness (GLOBE) research program

Sources: 'An Overview of the 2004 Study: Understanding the Relationship between National Culture, Societal Effectiveness and Desirable Leadership Attributes', GLOBE Project.com, 10 August 2020; and 'Visualizations of the 2004 Study', GLOBE Project.com, 13 January 2021.

Global Leadership and Organizational Behavior Effectiveness (GLOBE) research

program

A program that studies cross-cultural leadership behaviours

What is the specific environment of an organisation?

> Learning outcome 3.3 Explain what factors make up an organisation's specific environment.

An organisation's **specific environment** consists of the organisations, groups and individuals with whom it interacts as it conducts its business.[38] Factors in the specific environment have a direct and immediate effect on the organisation's operations and performance. For most organisations the specific environment includes customers, suppliers, competitors, industry regulators and government agencies, employees and labour markets, interest groups and strategic partners. The specific environment is often described in terms of **stakeholders** – anyone who affects or is affected by the achievement of the organisation's objectives.[39] Managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions, because this can provide improved predictability of environmental changes, more successful innovations, greater degree of trust among stakeholders, and greater organisational flexibility to reduce the impact of change.[40] So, understanding who an organisation's stakeholders are, and how they contribute to its specific environment, is important. Another reason for managing external stakeholder

relationships is that it's the right thing to do. Because an organisation depends on these external groups as sources of inputs (resources) and as outlets for outputs (goods and services), managers should consider the interests of stakeholders as they make decisions. We'll address this in more detail in the chapter on ethics and social responsibility.

specific environment
: The organisations, groups and individuals with whom an organisation interacts as it conducts its business

stakeholders
: Anyone who affects or is affected by the achievement of the organisation's objectives

Customers are the people and organisations that acquire goods or services from the organisation, usually in exchange for money.[41] Customer needs and wants influence the type of products that an organisation makes, the quality of those products and the prices for which they are sold. For example, a customer who buys a lot of the

organisation's output would be able to demand lower prices, more attractive financing terms, and customised products and services because the organisation would concede to their requests rather than lose their business.

customers

People and organisations that acquire goods or services from the organisation

Suppliers are companies and individuals who provide the inputs that organisations use to conduct their operations.[42] Inputs might include material or physical resources, human resources, financial resources, informational resources and business services.[43] Suppliers determine the quality, availability and cost of inputs, which makes them a major influence on an organisation's product and service quality, production capacity, competitiveness and profitability. Suppliers who control valuable inputs have lots of influence over organisations and can essentially set their own business terms. For example, the Organization of the Petroleum Exporting Countries (OPEC) coordinates and stabilises the petroleum prices charged by its 13 member countries. Since OPEC members control approximately 75 per cent of the world's oil reserves, the organisation effectively determines the world price for petroleum.[44]

suppliers

Companies and individuals who provide the inputs that organisations use to conduct their operations

An organisation's **competitors** are the individuals and organisations with whom it competes for resources.[45] They include government agencies and departments competing for funding from tax revenues; charities competing for donations, volunteers and clients; and employers competing for the best staff, the most advanced technology or the best strategic partners.[46] But the most common form of competition experienced by businesses is competing for customer dollars against other organisations in the same industry or type of business that offer products which customers see as acceptable alternatives to those offered by the organisation. For example, when a customer is hungry they value food, which they can get by eating at a restaurant or buying groceries from a supermarket and preparing their own meal. If a restaurant manager understands that they are competing for customer dollars against the supermarket as well as against other restaurants, then they can determine how to compete more effectively, such as by offering quicker meals than customers could get from other restaurants or from cooking at home. Competitors obviously influence the products and prices that organisations can offer, but they also influence the costs and

availability of supplies, access to distribution channels and profitability.

competitors
Individuals and organisations with whom an organisation competes for resources

Employees are those individuals who labour on behalf of the organisation in exchange for payment. Since employees provide the knowledge, skills, manual effort and creativity that support organisational operations, they are obviously critical to organisational performance.

employees
Individuals who labour on behalf of the organisation in exchange for payment

The **labour market** or labour supply is the pool of people employable by the organisation.[47] The balance between supply and demand for labour affects organisational performance by influencing

costs and organisational capacity.[48] For example, if demand for a particular type of employee outstrips supply, then the market rate for those workers goes up and increases labour costs for the organisations that employ them. If the knowledge and skills of those workers are critical to organisational products and services, then the availability of those workers will determine production capacity.

labour market

The pool of people employable by the organisation

Unions are employee associations. Unions negotiate pay and conditions with employers on behalf of their members. Unions may also affect organisations by taking industrial action on behalf of members. This might include arranging work stoppages, calling strikes or even taking employers to court.

unions

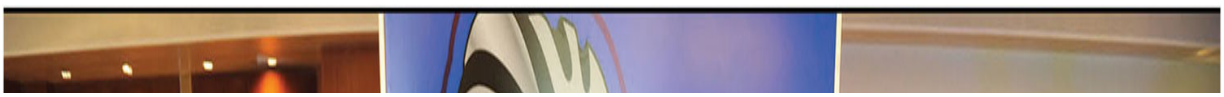
Employee associations that negotiate pay and conditions and take industrial action on behalf of their members

Strategic partners are organisations that work together for mutual benefit.[49] By working closely with strategic partners such as competitors, suppliers or customers, organisations can combine resources, share ideas, learn from each other and spread risks. However, collaborating with partners also creates a risk that partners can learn each other's trade secrets and even become competitive rivals.[50] Consequently, organisations must manage relationships with strategic partners carefully to ensure they can work closely enough to be effective but also protect themselves from risk.

strategic partners

Organisations that work together for mutual benefit

Regulators are people and organisations that create and enforce regulations to protect consumers, workers and society as a whole.[51] Regulators affect organisations by enforcing the 'rules of the game' for operating in a particular society. An organisation's specific environment might require interactions with a number of different regulatory bodies, such as WHS agencies, police, workplace standards boards and consumer affairs.[52] This can require a lot of time and energy.



Software developers and designers from communities throughout the world are valuable strategic partners for Yahoo!. The company builds relationships with these computer experts by staging hacking events, like the one shown here in Bangalore, India, that may result in technological innovations.

Manjunath Kiran/AFP/Getty Images

regulators

People and organisations that create and enforce rules and regulations to protect consumers, workers and society as a whole

Interest groups influence business activities in specific areas, such as environmental impact and ethical conduct.[56] Interest groups are focused on serving the interests of their members and are generally organised around a geographic locality, a specific social issue, or an industry or a profession. For example, the Australian Medical Association is a professional body that liaises with universities, hospitals and governments about issues that affect the medical profession. Interest groups usually attempt to influence organisational behaviour by negotiating directly with organisations or by lobbying governments and local residents to exert pressure. For example, environmental conservation groups that wish to prevent residential development of natural areas might pressure local

government bodies to stop the development by canvassing signatures from local residents for a petition.

interest groups

Groups organised to serve the interests of their members by influencing business activities in specific areas, such as environmental impact and ethical conduct

Managing for sustainability: Connecting up to do more with less

You have probably heard of Airbnb, Uber, Zipcar and Zilok – companies that are part of a fast-growing phenomenon called the sharing economy. The **sharing economy** is an economic environment in which asset owners 'rent out' their underutilised knowledge, expertise, skills, time or physical assets (such as a home, car, clothing, tools or other physical assets) to consumers who need those assets but who don't want to, or can't afford to, purchase them.[53] For example, Zilok is a service through which individuals lend and borrow expensive household items, such as cameras, musical instruments and kitchenware, for a fee.[54] KitSplit is a sharing arrangement between customers looking for sophisticated, high-end, creative-type equipment such as drones, Google Glass headsets, Oculus Rift systems, or expensive cameras, and production companies, studios and individuals looking to lease their unused equipment for short time periods.[55] The concept behind the sharing economy (or collaborative consumption) is putting underutilised assets to good use. But it

also has powerful implications for sustainability. Making more productive use of existing assets enhances environmental sustainability by minimising waste and reducing the need to use resources to make new assets. Leasing assets also enhances financial sustainability, because asset owners can generate new payoffs from previous expenditures and asset leasers don't need to purchase expensive assets they may only need occasionally.

sharing economy

An economic environment in which asset owners share with other individuals through a peer-to-peer service, for a set fee, their underutilised physical assets or their knowledge, expertise, skills or time

How does the external environment affect managers?

Learning outcome 3.4 Discuss how the external environment affects managers.

There are three main ways in which the external environment affects managers. One way is by affecting what managers can do and how they can facilitate organisational operations and the achievement of organisational goals. As we discussed in the chapter titled ‘How Organisations Operate’, organisations function as open systems, which means that, as they take inputs (such as materials, financial resources and labour) and use organisational processes to transform them into the outputs they provide to customers and clients (such as goods and services), they are influenced by and interact with their environment. As we’ve explained in this chapter so far, environmental factors can therefore affect the inputs the organisation can access, the outputs it can generate and the processes it can use to do so.

This means that the second way the external environment affects managers is by influencing the opportunities and threats that an organisation faces. Put simply, environmental factors create opportunities for organisations when they enhance resources availability or create new ways in which organisations can generate value with the resources they have. This might be by creating new

markets, making new resources available, or causing customers to value the organisation's outputs in new or different ways. Correspondingly, external factors create threats to organisations when they reduce resource availability, weaken the organisation's competitiveness, or reduce the perceived value of organisational outputs. That means that it's critical for managers to understand not only how factors in the external environment are affecting the organisation, but also when those factors might change over time, and how that could affect the organisation when it happens. We'll discuss this in more detail in the chapter on planning, when we explain how organisations set strategic goals.

A question of ethics: Opportunity, or opportunism?

During the COVID-19 outbreak, the Australian federal government (and governments in many other countries) introduced new rules limiting social contact. They included travel restrictions and the requirement that people who'd had contact with an infected person self-isolate for 14 days. Self-isolation was intended to ensure that people who'd contracted the disease but hadn't yet developed symptoms, and were therefore unknowingly contagious, didn't accidentally infect other people.

Shortly after these restrictions were introduced, a number of accommodation providers started advertising 'isolation packages', which offered guests the opportunity to book into a hotel or holiday home for the 14 days of their isolation period.[57] Packages included a 'bleach clean' of the property before arrival and after departure, fully-stocked fridges and pantries, unlimited use of internet access and Netflix, and doorstep deliveries of any supplies required during the isolation period.

Almost immediately. residents and local governments in regional areas began protesting against these packages and

demanding that they be shut down because they increased the risks to local communities. Specifically, they argued that such ‘isolation packages’ would increase risks to local residents in four ways. First, they would cause people who were more likely to have the disease to come into the local community. Second, many of the regions in question had local populations with high numbers of retired or elderly people, for whom the disease was more potentially dangerous, Third, it would further reduce the stocks of food and other essentials available to local residents. Fourth, if people did develop the disease while staying locally, it would place greater demands on local medical centres and hospitals, which would then be less able to look after local residents.

Discuss this

- Who are the stakeholders influenced by the offering of these packages? How are they affected?
- Do the owners of holiday homes have an ethical responsibility for the impact their guests may have on their local community?

> One of the biggest mistakes managers make is **failing to adapt to environmental changes**.

The third way that the external environment affects managers is by creating uncertainty.[58] **Environmental uncertainty** refers to how well managers can understand or predict the changes and trends in the environments affecting their organisations. It is determined by

environmental dynamism, environmental complexity and resource availability. **Dynamism** is the rate and predictability of change in the elements of the organisation's environment. In dynamic environments, changes occur quickly. In stable environments, the rate of environmental change is slow. **Environmental complexity** is determined by the number of external factors affecting the organisation. In simple environments, organisations are affected by few factors, whereas organisations in complex environments are influenced by many factors. **Resource availability** refers to the abundance of critical resources in an organisation's external environment. When environments are simple, resources are plentiful and change is slow, environmental uncertainty is low. When environments are complex and dynamic and resources are scarce, environmental uncertainty is high. For example, Zippo Manufacturing, best known for its Zippo cigarette lighters, faces a relatively certain environment.[59] There are few competitors and little technological change. The main external concern for the company is probably the declining trend in tobacco usage. In contrast, the movie industry faces a dynamic (highly uncertain and unpredictable) environment. Digital formats, apps and streaming services such as Netflix and Stan have turned the industry upside down and brought high levels of uncertainty.

environmental uncertainty

How well managers can understand or predict the changes and trends in the

environments affecting their organisations

dynamism

The rate and predictability of change in the elements of an organisation's environment

environmental complexity

The number of external factors affecting the organisation and the extent of their influence

resource availability

The abundance of critical resources in an organisation's external environment

The following figure illustrates how environmental uncertainty influences managers. Each of the four cells in the figure represents different combinations of degree of complexity and degree of change.

Cell 1 (stable–simple environment) represents the lowest level of environmental uncertainty, and cell 4 (dynamic–complex environment) the highest. Not surprisingly, managers have the greatest influence on organisational outcomes in cell 1 and the least in cell 4. Because uncertainty is a threat to an organisation's effectiveness, managers try to minimise it. Generally speaking, the more uncertainty there is in an organisation's external environment, the more attention managers must pay to monitoring conditions and spotting emerging trends. The degree of uncertainty also determines the importance of being able to respond quickly to new information and new circumstances.

Figure 3.2 Environmental uncertainty matrix

Degree of Complexity	Degree of Change: Stable	Degree of Change: Dynamic
Simple	**Cell 1** Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	**Cell 2** Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
Complex	**Cell 3** Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	**Cell 4** Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

To deal with their organisational environments, managers must be able to determine what is occurring, how it is relevant to the opportunities and threats faced by the organisation, and how the organisation should react.

Classic concepts in today's organisations: How much can managers really affect outcomes?

We have already stressed how important managers are to organisational success. But how much can managers really affect the outcomes achieved by their organisations?

The dominant view in management theory is that managers are directly responsible for their organisation's success or failure. This perspective is called the omnipotent view of management. Differences in an organisation's performance are assumed to be due to the decisions and actions of its managers. In this view, someone has to be held accountable when organisations perform poorly, regardless of the reasons, and that someone is the manager. Of course, when things go well, managers also get the credit – even if they had little to do with achieving the positive outcomes. This view also explains turnover among sports coaches, who are considered the 'managers' of their teams. Coaches whose teams lose more games than they win are usually fired and replaced by new coaches who are expected to correct the poor performance.

In contrast, others have argued that much of an organisation's success or failure is due to external forces outside managers' control. This perspective is called the symbolic view of management. The symbolic view says that a manager's ability to affect performance outcomes is influenced and constrained by external factors. According to this view, an organisation's performance is influenced by factors over which managers have little control, such as the economy, customers, governmental policies, competitors' actions, industry conditions and decisions made by previous managers. This view is labelled 'symbolic' because it's based on the belief that managers symbolise control and influence by developing plans, making decisions, and engaging in other managerial activities to make sense out of random, confusing and ambiguous situations. However, managers actually play only a limited part in an organisation's success or failure.

In reality, managers are neither all-powerful nor helpless. But their decisions and actions are constrained. External constraints come from the organisation's external environment, and internal constraints come from its culture.

Discuss this

- How are these two perspectives on management similar? Different?
- Why do you think these two perspectives on management are important? How might these concepts help you to

succeed in your role as an employee of an organisation? Explain.

Review

Chapter 3 summary

3.1 Explain what the external environment is and discuss why it is important.

The external organisational environment consists of the forces and conditions outside the organisation's boundaries that can potentially affect it. The external environment is made up of two components: the general environment and the specific environment.

3.2 Explain what factors make up an organisation's general environment.

The general environment consists of the broad sociocultural, technological, economic, political/legal, physical and global conditions in the society in which the organisation operates.

3.3 Explain what factors make up an organisation's specific environment.

An organisation's specific environment consists of the organisations, groups and individuals, also known as stakeholders, with whom it interacts as it conducts its business. For most organisations the specific environment includes customers, suppliers, competitors, industry regulators and government agencies, employees and labour markets, interest groups and strategic partners.

3.4 Discuss how the external environment affects managers.

The external environment affects managers by influencing the way the organisation operates to achieve its objectives and the degree of environmental uncertainty it faces. Organisations function as open systems, which means that they are influenced by and interact with their environment, and that environmental forces influence the inputs the organisation can access, the outputs it can generate and the processes it can use to do so. So, the external environment directly affects what managers can do and how they facilitate organisational operations and the achievement of organisational goals. ‘Environmental uncertainty’ refers to how well managers can understand or predict the changes and trends in the environments affecting their organisation. It’s determined by environmental dynamism, environmental complexity and resource availability. When environments are simple, resources are plentiful and change is slow, environmental uncertainty is low. When environments are complex and dynamic and resources are scarce, environmental uncertainty is high. The more uncertainty there is in an organisation’s external environment, the more important it is that managers monitor conditions, spot emerging trends, and respond quickly to new information and new circumstances.

Discussion questions

3.1 How much impact do managers actually have on an organisation's success or failure?
3.2 Describe the five components of the general environment. Why is it important for managers to understand these components?
3.3 The internet is perhaps the most influential technological development experienced by modern organisations. Think of five organisation (ideally, ones that are as diverse as possible) and explain how the internet has caused either product or process technological changes for each one.
3.4 Choose one demographic trend from the list given in this chapter. Now think of an organisation that is likely to be affected by that trend, and explain how it would influence the organisation. **Hint:** Think about how it might affect the organisation's customer base and its workforce.
3.5 Select a national culture you are familiar with and evaluate it using the dimensions in **Table 3.1**. Which dimensions is it high in? What behaviours do you see in that culture that illustrate this?
3.6 Review the stakeholder groups discussed in this chapter. If you were a manager, which ones would you pay the closest attention to?
3.7 You have probably heard the saying 'the customer is king'. Under what circumstances would an individual customer

actually have power to influence a particular organisation?

3.8 What is environmental uncertainty? What impact does it have on managers and organisations? Find two examples in current business periodicals that illustrate how environmental uncertainty affects organisations.

3.9 If you were managing an organisation that operated in a highly dynamic and complex environment, how could you ensure you were still able to manage effectively?

3.10 ‘Businesses are built on relationships.’ What do you think this statement means? What are the implications for managing the external environment?

Management skills spotlight: Scanning the external environment

If they are to deal effectively with a dynamic environment, managers need to understand *what* is changing, *how* it is changing, and how that change might affect the organisation. This includes understanding how much uncertainty the change might create, how dynamic the change may be, and how soon it might come into effect. Finally, it entails figuring out when a new development just needs to be ‘on the radar’, and when it’s time to do something about it!

Experiential exercise

Regulators are one of the most influential stakeholders in an organisation's environment because they determine the 'rules of the game' for its operations. So, it's critical that managers understand what regulators have specified about what their type of organisation can (and cannot) do, and how it can do it. In this exercise, you are going to learn how to research the regulations that apply in your local area.

1. Think of a business you would like to manage in the future. (If you can't think of one, think of the last business you dealt with.)
2. Now do some internet searching to find out what sorts of regulations exist for that type of business in your local area. Write a list of all the requirements you find.
   Make sure your searching includes:
   a. federal government regulations that apply to all businesses in Australia (such as regulations about getting an Australian business number)
   b. state government regulations that apply to businesses in your state (**Hint:** Try searching sites such as www.victoria.business.gov.au)
   c. any local council regulations that might apply
   d. any regulations that are specific to the type of business, such as regulations for cafés and restaurants. (**Hint:**

Try searching for industry associations that relate to your type of business.)

3. Reflect on your experience in researching this element of your business environment.
    a. Describe what happened when you tried to find relevant regulations. How easy was it to find the information you were looking for? How easy was it to work out what you had to do as a business owner?
    b. Interpret your experience. Why do you think you had the challenges that you did?
    c. Evaluate your experience. What did you learn from the experience about the ways in which regulators influence business operations and managers?
    d. How could you apply your insights in the future? What would you do differently next time if you were researching regulators and regulatory requirements in the future?

Case application: Electric vehicles

By 2040, experts predict that one-third of the cars on the planet will be electric vehicles (EVs).[60] Widespread adoption of EVs could have a significant effect on global levels of carbon emission. But EV production depends heavily on global supply chains, and some of those are both crucial and vulnerable.

EVs use rechargeable lithium ion batteries, the same technology used to power laptops and smartphones. Lithium ion batteries are made with cobalt, which doesn't easily overheat or catch fire, and will store and transfer more energy than batteries made with other substances. As EVs become more popular around the world, demand for lithium batteries will increase dramatically, which will increase the demand for cobalt. Some experts predict it will quadruple to over 100,000 metric tonnes per year by 2025.

Global supply of cobalt is largely dependent on one source: the Democratic Republic of Congo (DRC). The DRC produces 60 per cent of the world's supply of cobalt, and about half of that is used in rechargeable batteries. Consequently, the global supply chains for cobalt and lithium batteries are vulnerable and sensitive to environmental conditions in the DRC. This is problematic because, historically, the DRC has

been a politically and economically unstable country, due to civil war, government corruption and political unrest. In 1978, armed conflict in the DRC halted cobalt production, which saw world prices for the mineral skyrocket from US$18 per kilogram to US$99 in only seven months.

The nature of cobalt mining in the DRC means that disruptions could well occur. Three mines produce more than 60 per cent of the country's annual output. The rest is extracted through 'artisinal mining' practices: people digging cobalt straight out of the ground. Artisinal cobalt mining has been found to be 'unregulated, unsafe . . . cause[s] environmental damage, and in some cases, involves child labour and other human rights abuses'. This has increased pressure on both the Congolese government and companies using cobalt from the DRC to take more social responsibility for their role in this situation. In 2019, 14 Congolese families filed a legal action against a number of firms, including Apple, Google, Tesla and Microsoft, alleging that the companies knew the cobalt sourced from the DRC could be linked to child labour. This could eventually see demand increase for cobalt sourced from outside the DRC.

China, which has become an increasingly significant player in global cobalt production, may offer a solution. By 2012, it was the world's second largest producer of the mineral. A Chinese company, Contemporary Amperex Technology Co. Limited (CATL), is now also the global market leader by sales volume in lithium-ion battery sales. In 2019, CATL established a centre for battery production in Erfurt, Germany, to leverage

environmental changes that have increased interest in and demand for EV vehicles. Since 2016, countries including Norway, China, India, Germany, France and Britain have all announced plans to ban sales of petrol- and diesel-powered vehicles. By 2020, CATL was supplying Volkswagen, Toyota and Tesla with EV batteries and had reported that it was working with Tesla to develop EV batteries with significantly longer life spans. Establishing its European operation also strengthens both CATL's supply chain and the global supply chain for EV batteries, because in the event of a disruption to battery production or supply from China, CATL can switch production to its European centre.

Discussion questions

3.11 What factors in the general environment influence lithium battery and EV production?

3.12 Analyse the specific environment of CATL. Which stakeholders in its specific environment are influenced by factors mentioned in the case? How are they affected?

3.13 What global forces are illustrated in this case? How are they affecting the global supply chains for lithium batteries and EVs?

3.14 What forms of risk and uncertainty does CATL face? How could it manage those risks and uncertainties?

Running case: Holiday home helpers: Change on the horizon

At the end of her first week at HHH, Mia undertook an environmental scan of the company's business environment. She concluded that there were four particular issues she needed to keep on her 'watch list' because of their potential to influence the company's performance in her region over the next five years.

First was the demographic profile of the region's population. Mia determined that the population profile in her region was an 'apple core', meaning there were a lot of people aged 60+ and a lot of people aged under 25, but far fewer people aged 25–60. This was largely due to people moving out of the region to find work and family-related opportunities that were not available locally, or moving into the region when they retired. These trends looked set to continue for the next five to ten years at least, and presented both opportunities and threats to HHH. The growth in the number of older people was a positive trend, because retirees have both the income to buy investment properties that can be used as holiday homes, and health and fitness issues that prevent them from cleaning and maintaining their own properties. The loss of younger people

was more problematic; if it continued, HHH would need to staff alternative labour pools from which to hire cleaners.

A second issue was the changing demand for holiday accommodation. Historically, Mia's region was extremely popular with international tourists. The declines in international travel activity, economic downturns, border closures and political fallout all stemming from the COVID-19 pandemic radically decreased the number of international tourists coming to the region. Fewer groups coming from China had a particularly noticeable impact on HHH, as the largest holiday homes serviced by the company were very popular with extended family groups travelling to the region. However, when state borders were closed due to COVID-19, the region became very popular with intrastate tourists. It was particularly popular as a destination where friends and family from around the state could meet up for 'reunion holidays' with people they'd been unable to spend time with during the pandemic. This could expand further as states reopened their borders and people were again able to catch up with interstate family and friends.

A third issue was changing supply needs. When COVID-19 first hit, HHH created a hospital-grade decontamination cleaning service so that all of its existing clients could ensure their holiday homes complied with new safety standards introduced by the state and federal governments. This required rapid development of new supply chains through which the company could source sufficiently powerful cleaning

products. Supply chains had been secured, but as the company was point-dependent on a couple of key suppliers it had to accept prices and delivery terms it wouldn't normally agree to. As the new products were also much stronger than the company usually used, it also needed to develop new guidelines and training for staff about how to safely use and store the products.

Finally, HHH needed to consider the regulation of holiday homes. The explosive growth of holiday homes in Mia's region, particularly through platforms such as Airbnb, was a contentious issue in local politics. The conversion of so many residential and rental properties into holiday homes reduced housing affordability for local residents, and meant that rental properties had become much harder for local people to get and afford. At one point, two of the local councils were planning to introduce new restrictions on the use of residential homes as holiday accommodation, which would have meant, among other things, that home owners could only rent out single rooms, not whole houses. But in the wake of the COVID-19 pandemic, local councils and communities were very keen to maximise economic activity in the region. The councils hadn't yet announced whether the intended changes to regulations were going to be scrapped altogether. Mia thought they would at least be put on hold.

Discussion questions

3.15 Which elements of the general environment has Mia highlighted in her environmental scan?
3.16 Which stakeholders in the specific environment do these elements affect, and how are those stakeholders affected?
3.17 Which of these trends will affect resource availability for HHH? How will they affect resource availability?
3.18 How dynamic is HHH's business environment? Which of the trends in the case do you think could change the most quickly?

Endnotes

1 ‘Ten Impacts of the Australian Bushfires’, *UN Environment.org*, 22 January 2020, https://www.unenvironment.org/news-and-stories/story/ten-impacts-australian-bushfires, accessed 29 April 2020.

2 M. Klapdor and C. Guiliano, *The Impact of COVID-19 on JobSeeker Payment Recipient Numbers by Electorate* (Canberra: Parliamentary Library, 14 July 2020).

3 World Health Organization, ‘WHO Timeline – COVID-19', https://www.who.int/news-room/detail/27-04-2020-who-timeline—covid-19, accessed 10 August 2020; ‘Zoom Video Communications Inc.’, **https://finance.yahoo.com/quote/ZM/history/**, accessed 10 August 2020; Fior Markets, ‘Global Hand Sanitizer Market is Expected to Reach USD2.14 Billion by 2027’, *Globe Newswire*, 26 March 2020; C. Branuik, ‘No End to COVID-19 Webcam Shortage’, *BBC News*, 26 July 2020; J. Hayne, ‘Government to Reveal Impact of Coronavirus on Economy after Extending JobKeeper, JobSeeker’, *ABC News*, 22 July 2020; Meat and Livestock Australia, ‘COVID-19 Crisis Sees Surge in Domestic Retail Demand’, 16 April 2020; Regional Australia Institute, ‘Covid-19: Impact on Regional Australia – Older Populations’, 20 April 2020; The Black Dog Institute, ‘Mental Health Ramifications of COVID-19: The Australian Context’, 19 March 2020; and **https://www.thekindnesspandemic.org/**, accessed 10 August 2020.

4 ‘Price of Zoom Shares Traded on NASDAQ Stock Market in 2020’, **https://www.statista.com/statistics/1106104/stock-price-zoom/**, accessed 7 January 2021.

5 Based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009), p. 83; D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 91; and M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), p. 75.

6 This section based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009), p. 85; K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 77; and M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), p. 75.

7 This section based on M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), pp. 76–7; S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009), pp. 87–99; and P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 148.

8 S. Cardwell, ‘Where Do Babies Come from?’, *Newsweek*, 19 October 2009, p. 56.

9 N. Mandhana, ‘India Confronts Demographic Bulge’, *Wall Street Journal*, 23 January 2018, p. R10.

10 Y. Hori, J-P. Lehmann, T. Ma Kam Wah and V. Wang, ‘Facing up to the Demographic Dilemma’, *Strategy and Business*, Spring 2010; and E. E. Gordon, ‘Job Meltdown or Talent Crunch?’, *Training*, January 2010, p. 10.

11 M. Chand and R. L. Tung, 'The Aging of the World's Population and Its Effects on Global Business', *Academy of Management Perspectives*, November 2014, pp. 409–29.

12 Workforce Gender Equality Agency, *Gender Workplace Statistics at a Glance* (Canberra: Workforce Gender Equality Agency, 2017).

13 L. Dowling, K. Eastaughffe, U. Harkin and S. Argent, *Addressing Homophobia in the Workplace* (Brisbane: PFLAG Brisbane Incorporated, 2012).

14 B. Cleary, 'Half of Australia's Gay Community Are Afraid to "Come out of the Closet" at Work . . . and Two Thirds of Workplaces Are Homophobic', *Daily Mail Australia*, 29 September 2016.

15 T. Ong, 'Workplace Discrimination: Half of LGBTI Australians Hide Sexuality at Work, Report Finds', *ABC News*, 28 September 2016.

16 B. Cleary, 'Half of Australia's Gay Community Are Afraid to "Come out of the Closet" at Work . . . and Two Thirds of Workplaces Are Homophobic', *Daily Mail Australia*, 29 September 2016.

17 Australian Bureau of Statistics, *Disability, Australia, 2009*, Cat. No. 4446.0 (Canberra: Australian Bureau of Statistics, 2011).

18 World Health Organization, *Depression*, 2017, **www.who.int/mediacentre/factsheets/fs369/en/**, accessed 2 January 2018.

19 Based on C. Williams and A. McWilliams, *MGMT* (Melbourne: Cengage, 2010), p. 50; and P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 146.

20 D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 94.

21 Managing for Diversity and Inclusion box is based on E. H. Buttner, K. B. Lowe and L. Billings-Harris, 'An Empirical Test of Diversity Climate Dimensionality and Relative Effects on Employee of Color Outcomes', *Journal of Business Ethics*, vol. 110 (2012), pp. 247–58; H. Jauhari and S. Singh, 'Perceived Diversity Climate and Employees' Organizational Loyalty', *Equality, Diversity and Inclusion: An International Journal*, vol. 32, no. 3, (2013), pp. 262–76; and B. Singh and T. T. Selvarajan, 'Is it Spillover or Compensation? Effects of Community and Organizational Diversity Climates on Race Differentiated Employee Intent to Stay', *Journal of Business Ethics*, vol. 115 (2013), pp. 259–69.

22 K. Walters, 'Who Wants to Be a Style Icon?', *BRW,* 9–15 April 2009, p. 38.

23 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 148.

24 S. Grehl, H. Mischo and B. Jung, 'Research Perspective – Mobile Robots in Underground Mining', *AusIMM Bulletin*, February 2017.

25 D. Samson and R. L. Daft, *Management,* 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 96.

26 K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 78.

27 Based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009), p. 142; and K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 78.

28 This section based on M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), p. 82.

29 S. Russolillo, 'Countries Urged to Weigh Issuing Digital Currencies', *Wall Street Journal*, 19 September 2017, p. B6.

30 K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 7.

31 Based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009), p. 87; and D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 98.

32 T. Bush, 'PESTLE Analysis: Environmental Factors Affecting Business', *pestleanalysis.com*, 7 July 2016.

33 Based on D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 92.

34 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 150.

35 E. Beinhocker, I. Davis and L. Mendonca, 'The 10 Trends You Have to Watch', *Harvard Business Review,* July–August 2009, pp. 55–60.

36 G. Hofstede, 'The Cultural Relativity of Organizational Practices and Theories', *Journal of International Business Studies*, Fall 1983, pp. 75–89; and G. Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Beverly Hills, CA: Sage Publications, 1980), pp. 25–6.

37 R. J. House, N. R. Quigley and M. S. deLuque, 'Insights from Project GLOBE: Extending Advertising Research through a Contemporary Framework', *International Journal of Advertising*, vol.

29, no. 1 (2010), pp. 111–39; R. R. McRae, A. Terracciano, A. Realo and J. Allik, 'Interpreting GLOBE Societal Practices Scale', *Journal of Cross-Cultural Psychology,* November 2008, pp. 805–10; J. S. Chhokar, F. C. Brodbeck and R. J. House, *Culture and Leadership across the World: The GLOBE Book of In-Depth Studies of 25 Societies* (Philadelphia, PA: Lawrence Erlbaum Associates, 2007); R. J. House, P. J. Hanges, M. Javidan, P. W. Dorfman and V. Gupta, *Culture, Leadership and Organizations: The GLOBE Study of 62 Societies* (Thousand Oaks, CA: Sage Publications, 2004); and R. House 'Epilogue: The GLOBE Research Program', in V. Gupta (ed.), *Transformative Organizations: A Global Perspective* (New Delhi: Response Books, 2004).

38 J. Campling, D. Poole, R. Wiesner and J. R. Schermerhorn, *Management*, 2nd Asia Pacific edn (Brisbane: John Wiley & Sons, 2006), p. 36.

39 R. E. Freeman, *Strategic Management: A Stakeholder Approach* (Boston, MA: Pitman/Ballinger, 1984).

40 S. L. Berman, R. A. Phillips and A. C. Wicks, 'Resource Dependence, Managerial Discretion and Stakeholder Performance', *Academy of Management Proceedings*, Best Conference Paper, August 2005; A. J. Hillman and G. D. Keim, 'Shareholder Value, Stakeholder Management and Social Issues: What's the Bottom Line?', *Strategic Management Journal*, March 2001, pp. 125–39; J. S. Harrison and R. E. Freeman, 'Stakeholders, Social Responsibility and Performance: Empirical Evidence and Theoretical Perspectives', *Academy of Management Journal*, July 1999, pp. 479–87; and J. Kotter and J. Heskett, *Corporate Culture and Performance* (New York: The Free Press, 1992).

41 Based on P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 152; and K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 80.

42 D. Samson and R. L. Daft, *Management,* 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 99.

43 C. Williams and A. McWilliams, *MGMT* (Melbourne: Cengage, 2010), p. 53.

44 OPEC, 'Our Mission', **www.opec.org**, accessed 23 November 2010; OPEC, 'OPEC Share of World Crude Oil Reserves 2009', **www.opec.org**, accessed 23 November 2010; OPEC, 'Member Countries' Organization of the Petroleum Exporting Countries, **www.opec.org**/opec_web/en/about_us/25.htm, accessed 2 January 2018; and R. Sharma, 'OPEC vs. The US: Who Controls Oil Prices?', *Investopedia*, 14 October 2020.

45 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 151.

46 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 151.

47 K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 81.

48 Based on M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), p. 92.

49 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons,

2006), p. 153.

50 G. Hamel, 'Competition for Competence and Inter-Partner Learning within International Strategic Alliances', *Strategic Management Journal*, Summer Special Issue, 1991, pp. 83–103.

51 C. Williams and A. McWilliams, *MGMT* (Melbourne: Cengage, 2010), p. 54.

52 K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 83.

53 T. Meelen and K. Frenken, 'Stop Saying Uber Is Part of the Sharing Economy', *Fast Company*, 14 January 2015; and 'The Rise of the Sharing Economy', *The Economist*, 9 March 2013.

54 'Airbnb, Snapgoods and 12 More Pioneers of the "Share Economy"', *Forbes*, 23 June 2014, **http://us.zilok.com/support/explanation/**, accessed 2 January 2018.

55 N. Ungerleider, 'This "Airbnb for Creative Equipment" Will Rent You Drones, Oculus Rifts, Google Glass, More', *Fast Company*, 6 March 2015.

56 P. Davidson, A. Simon, P. Woods and R. W. Griffin, *Management*, 4th Australasian edn (Brisbane: John Wiley & Sons, 2006), p. 153.

57 J. Clifford, 'Call for Airbnb Shutdown over "Isolation Holiday" Promotions Amid Coronavirus Travel Bans', *ABC News*, **https://www.abc.net.au/news/2020-04-01/call-for-airbnb-coronavirus-holiday-accomodation-shutdown/12109462**, 1 April 2020; S. Mitchell, 'Coronavirus Self-Isolation Packages are Now a Thing', https://www.escape.com.au/holiday-deals/australia/coronavirus-selfisolation-accommodation-packages-are-now-a-thing/news-story/,

19 March 2020, accessed 3 April 2020; 'Home Away From Home', https://www.oakshotels.com/en/self-isolation, accessed 3 April 2020.

58 This section based on K. Bartol, M. Tein, G. Matthews and B. Sharma, *Management: A Pacific Rim Focus*, 5th edn (Sydney: McGraw-Hill, 2008), p. 86; and C. Williams and A. McWilliams, *MGMT* (Melbourne: Cengage, 2010), p. 45.

59 J. R. Hagerty, 'Zippos Preps for a Post-Smoker World', *Wall Street Journal*, 8 March 2011, p. B1.

60 D. Roos, 'Cobalt: Essential for Batteries and Bright Blues', *HowStuffWorks*, 28 August 2019; K. B. Shedd, E. A. McCullough and D. L. Bleiwas, 'Global Trends Affecting the Supply Security of Cobalt', *Mining Engineering*, December 2017, pp. 37–42; 'CATL Plans Massive Increase in European Battery Production', *Clean Technica*, 27 June 2019, https://www.catlbattery.com/en/web/index.php/news/newsinfor/21/41, accessed 3 August 2020; Y. Sun and B. Goh, 'CATL Explores New EV Battery Services, to Add Capacity: Chairman', *Reuters*, 27 May 2020; 'Top Tech Firms Sued over DR Congo Cobalt Mining Deaths', *BBC News*, 16 December 2019; European Parliament, 'CO_2 Emissions from Cars: Facts and Figures', 18 April 2019, **https://www.europarl.europa.eu/news/en/headlines/society/20190313STO31218/co2-emissions-from-cars-facts-and-figures-infographics**, accessed 4 August 2020; United States Environmental Protection Agency, 'Sources of Greenhouse Gas Emissions', 11 April 2020, **https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions**; CATL, 'Market Position', https://www.catlbattery.com/en/web/index.php/about/status,

accessed 3 August 2020; ‘Toyota to Buy Batteries from Chinese Suppliers for First Time’, *Financial Times*, 7 June 2019.

Chapter 4 Managing social responsibility and ethical behaviour

Fact or fiction?

Everyone knows how to do the right thing, but some people just choose not to.

Fiction

If everyone knew how to do the ‘right’ thing, life would be very simple and straightforward. But our definition of the ‘right’ thing to do depends on our values, our beliefs, how much we are affected by the dilemma we are considering, and whether we think anyone will notice if we do the ‘right’ thing or not. So, it’s important for us to remember that ***in most situations, people are doing what they believe is the ‘right’ thing*** to do; they just may differ in *why* they think it is right.

Ethics and social responsibility are important to a manager's job because society expects managers and organisations to behave in ethical and socially responsible ways. In fact, many people make decisions about which organisations they will work for,[1] and even invest in,[2] based on how socially responsible those organisations are. In this chapter, we examine ways to define an organisation's social responsibilities and the different views of social responsibility that an organisation might take. We'll then examine some approaches that managers can use to determine the ethical thing to do. We'll finish by discussing some factors that influence ethical and unethical behaviour, and review some methods that managers can use to promote ethical behaviour in their organisations.

Learning outcomes

4.1 Explain how organisations can define their social responsibilities.

4.2 Examine the arguments for and against social responsibility.

4.3 Discuss the approaches that managers can use to define ethical courses of action.

4.4 Discuss factors that influence ethical and unethical behaviour.
4.5 Identify methods that managers can use to encourage ethical behaviour.

Lawyer X

The collaboration between Nicola Gobbo and Victoria Police may have been motivated by the desire to stop criminals, but the ultimate result may be that hundreds of criminals go free.

Fairfax Syndication

We've all heard people justify unethical behaviour by claiming that the ends justified the means. But as the Lawyer X scandal illustrates, the means may end up costing you the very thing you were trying to achieve.[3]

In 2014, the Victorian justice system was rocked to its very foundations by the revelation that Victoria Police had been using a defence barrister known as Lawyer X as a police informer. Lawyer X, whose real name is Nicola Gobbo, is a criminal defence lawyer who spent six years between 2005 and 2009 defending her clients in court while also reporting to Victoria Police about their criminal activities.

Ms Gobbo claimed that she became an informer in 2005 in order to help Victoria Police end a 'gangland war' unfolding between two criminal gangs. She had defended and socialised

with members of both gangs, and in the process developed a detailed knowledge of their criminal operations. ‘My motivation in assisting police was not for self-gain,’ she claimed, ‘but was rather borne from the frustration of being aware of prolific large commercial drug trafficking . . . murders, bashings . . . and other serious offences, all being committed without any serious inroads being made by police.’ However, she later acknowledged she was also partly motivated by concerns that she could be charged as an accessory to crimes she had learnt about while defending her clients. She was also informing for the police long before then, having first been registered as a police informer in 1995.

In 2008, Victoria Police escalated Ms Gobbo’s involvement in criminal investigations by asking her to ‘wear a wire’ so they could record a conversation she had with a former detective who was accused of arranging a murder. Gobbo did so and was then called as a prosecution witness for the accused’s trial but refused to give evidence after she received death threats. The case was later abandoned. In 2010, Ms Gobbo sued Victoria Police over their management of her involvement in the case, claiming they had promised to protect and compensate her and had then breached that promise.

The revelations of Ms Gobbo’s work as a police informer have triggered ‘the biggest legal crisis in Australian history’ because it compromises the entire principle of a defendant receiving a ‘fair trial’. Ms Gobbo’s information helped Victoria Police secure criminal convictions for nearly 400 people, all of which

convictions are now in doubt. It is also possible that ‘her role as a police informant so “corrupted” her role as a lawyer that she was never able to carry out her duties to her clients or the courts’. If so, the trial outcomes for every client she defended during that time are also now in doubt. It could mean that her clients may be tried again, or might go free, or could even be compensated for the time they served in prison.

Meanwhile, in 2019 the Royal Commission into Police Informant Management began investigating how and why Victoria Police used Ms Gobbo and at least seven other legal professionals as informants. Those investigations have revealed that her role as an informer was widely known within Victoria Police, and that senior officers, including two police commissioners, sanctioned and leveraged Ms Gobbo’s involvement in criminal investigations. The Lawyer X scandal has triggered scathing criticism of Victoria Police and the officers involved, and it remains to be seen how the organisation can rebuild its reputation and the public’s confidence. The bitter irony is that the collaboration between Ms Gobbo and Victoria Police destroyed the reputation of both parties and also compromised every conviction it achieved.

How do organisations define their social responsibilities?

Learning outcome 4.1 Explain how organisations can define their social responsibilities.

When we talk about **social responsibility** – also known as *corporate social responsibility (CSR)* – we mean an organisation's intentions to go beyond its legal and economic obligations to act in ways that are good for society. There are three main stances an organisation can take about its social responsibilities: (1) meeting social obligations; (2) being socially responsive; or (3) being socially responsible.

social responsibility

A business's intentions, beyond its legal and economic obligations, to do the right things and act in ways that are good for society

Organisations that meet **social obligations** define their social responsibilities only in terms of doing what the law requires or what is

necessary to meet their economic goals. For example, they might minimise waste emissions to meet national pollution standards, but only because the law says they must. The social obligation stance corresponds with the purely economic or classical view that management's only social responsibility is to maximise profits. But the scandals and backlashes that erupt when companies do sacrifice social good for profits have produced the socioeconomic view of social responsibility, which holds that management's responsibility goes beyond making profits to include protecting and improving society's welfare.[4] How far an organisation takes these responsibilities depends on whether it's being socially responsive or socially responsible.

social obligations

When a business engages in social actions because of its obligation to meet certain economic and legal responsibilities

Organisations that are **socially responsive** engage in social actions because there is demand for them and even social pressure to provide them. Managers in these companies are guided by social norms and values and make practical, market-oriented decisions about their actions.[5] A company that packages its products using

recycled paper is being socially responsive because environmentalists have demanded such actions.

> ***socially responsive***
>
> When a business engages in social actions in response to some popular social need

Organisations that are **socially responsible** engage in social actions because they are actively trying to have a positive impact on society, either by minimising harm (e.g. by reducing carbon emissions) or by doing something positive for society (e.g. providing paid leave for employees who do volunteer work).

Enterprises such as Soft Landing are highly socially responsible because they engage in business activities in order to have positive social impacts. Soft Landing is a mattress recycling social enterprise that operates in New South Wales, Western Australia and the Australian Capital Territory. It has recycled over 1 million mattresses to enable reuse of the timber, steel springs and foam from which they are made. In doing so, Soft Landing also provides training and employment for people who experienced barriers to employment, such as Indigenous Australians, people with mental health issues, and people in the criminal justice system.[6]

socially responsible

When a business engages in social actions because it is actively trying to have a positive impact on society

Should organisations be socially responsible?

Learning outcome 4.2 Examine the arguments for and against social responsibility.

Doing 'the right thing' can pay off in lots of different ways. Good arguments can be made for and against businesses being socially responsible (see **Figure 4.1**). Numerous studies have found that social involvement positively affects a company's economic performance.[7] However, no generalisable conclusions can be made because the relationship is affected by various contextual factors such as company size, industry, economic conditions and regulatory environment.[9] It's also not clear whether social involvement *causes* higher economic performance or whether companies with high profits can then afford the 'luxury' of being socially involved.[10] In fact, one review found that if the flawed empirical analyses in these studies were 'corrected', social responsibility had a neutral impact on a company's financial performance.[11] Another found that participating in social issues not related to the organisation's primary stakeholders had a negative effect on shareholder value.[12] Despite all these concerns, after re-analysing several studies, other researchers concluded that managers can afford to be (and should be) socially responsible.[13]

Figure 4.1 Arguments for and against social responsibility

Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 154. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

The more relevant consideration for today's organisations may be that those that aren't at least socially *responsive* will find it increasingly hard to obtain and keep the support of customers and employees. They may also find themselves overtaken by more socially involved rivals. So, the final answer may be that organisations should be socially responsible because they can't afford not to be!

Managing for diversity and inclusion: How support for diversity and inclusion pays off

As with other forms of socially responsible behaviour, there are many arguments as to why organisations should support diversity and promote inclusiveness beyond it simply being 'the right thing to do.'[8] Some relate to avoiding the negative consequences that could arise if they don't. For instance, if organisations support diversity, they can:

- reduce or minimise complaints about inequitable treatment
- lower turnover and absenteeism rates
- face fewer legal actions for discriminatory treatment, thereby saving time, money and reputational damage.

But far more arguments relate to the positive consequences that can arise if organisations *do* support diversity and foster inclusiveness. They include:

- leveraging a broader range of backgrounds, knowledge, values, beliefs and insights to enhance decision making and problem solving
- fostering more creativity and innovation by harnessing diverse ideas and ways of thinking

- creating systems flexibility for accommodating diverse needs, which then enhances organisational adaptability and responsiveness
- building effective relationships with more diverse groups within the community
- enhancing the organisation's reputation as a desirable employer and a good place to work, improving its capacity to attract high-quality staff
- improving organisational commitment, as employees feel valued and supported
- increasing productivity and enhancing organisational performance by better utilising the organisation's people.

All in all, the better question may be not 'why should organisations support diversity and inclusion?' but 'why *wouldn't* they'?

Managing for sustainability: Using dirty deeds to look clean and green

Concerns about sustainability highlight the long-term consequences of pursuing short-term gains. In recent years, Volkswagen has provided a powerful example of why that is so important. In 2015 the world learnt that Volkswagen had misled consumers about the 'clean and green' performance of its diesel engines.[14] The company had installed so-called defeat devices in its vehicles to give a false read of engine emissions to testing systems. The diesel engines would detect when they were being tested for emissions and change the vehicle's performance to improve testing results. Once on the road, the vehicle would switch out of the test mode, emitting excessive nitrogen oxide pollutants.

Volkswagen's deception was uncovered by researchers at West Virginia University in the United States who were studying clean diesel engines. When they tested the performance of Volkswagen vehicles, they were surprised to find that the on-the-road emissions were almost 40 times higher than the levels permitted by the US government. At first, the company suggested there was a technical problem with the cars. But further investigation by the US

Environmental Protection Agency found that about 500,000 Volkswagen vehicles sold in the United States were actually equipped with software that could ‘trick’ emission testing systems. Volkswagen then claimed that only a limited number of cars were affected; however, as more details were uncovered, the company admitted that about 11 million cars worldwide were fitted with this software, and that this had occurred over a longer period of time than originally reported.

Volkswagen’s deception has so far cost the company a CEO, a criminal conviction as a corporation, over US$20 billion in fines and settlements, and the costs incurred in recalling 9 million vehicles in Europe and the United States. It seems clear that the short-term gains Volkswagen achieved in sales of its ‘clean’ diesel cars will be far outweighed by the longer-term consequences of its actions.

How can managers identify the ethical thing to do?

Learning outcome 4.3 Discuss the approaches that managers can use to define ethical courses of action.

> If managers are **serious about encouraging ethical behaviours**, there are a number of things they can do.

However organisations define their social responsibilities, they are still expected to operate ethically. Deciding how to behave ethically involves three steps: (1) defining the dilemma or 'problem' you are trying to solve; (2) identifying the stakeholders affected by the decision being made; and (3) using ethical principles to determine how to behave ethically towards them. To illustrate, let's consider the following situation.

Your organisation has a clear policy not to compensate employees for overtime. Last weekend, several members of the team you manage worked all weekend to complete an important project. Would it be unethical to tell these employees that they can take two 'sick' days to make up for their lost weekend?[15]

Step one is to determine the dilemma or 'problem'. In this scenario the 'problem' is that team members have worked overtime without being rewarded for their extra efforts. The dilemma is whether to tell

those team members to claim ‘sick’ days as compensation for the overtime worked.

Step two is to identify the stakeholders affected by this decision. In this scenario, the stakeholders are the team members who worked over the weekend and would get the sick days, the other team members who didn’t work over the weekend and so wouldn’t get the sick days, the other employees in the organisation who weren’t compensated for working overtime, and the managers of those other employees.

Step three is to apply ethical principles to determine which course of action, if any, would be the most ethical. The term **ethics** commonly refers to a set of rules or principles that defines right and wrong conduct.[16] In this section, we discuss three main views of ethical behaviour and explain how managers can apply each perspective to determine the most ethical action to take.[17]

ethics

A set of rules or principles that defines right and wrong conduct

> Figuring out how to behave ethically **can be complicated**!

Ethical perspectives

The *utilitarian view of ethics* defines ethical behaviour solely on the basis of outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. To apply a utilitarian approach to a decision, you need to determine all the possible consequences for each course of action. You then need to determine which one creates the greatest good for the greatest number. Because it prioritises the creation of 'good', the utilitarian approach encourages efficiency and productivity. But it *only* considers the 'good' created by different options; it doesn't also consider the harm they might produce. Consequently, a course of action that greatly harms a small group of people but benefits a lot more would be considered ethical under the utilitarian approach. Similarly, an option that created some good for a large number of people would be considered more ethical than one which created a large amount of good for a smaller number of people. This means it can bias decisions in favour of the majority and promote actions that disadvantage minorities or even actively harm them.

The *rights view of ethics* defines ethical behaviour as behaviour that respects and protects people's individual liberties and privileges, including the rights to privacy, freedom of conscience, free speech and due process. The goal of the rights view is to avoid interfering with the rights of people who might be affected by the decision. To apply the rights view of ethics to this situation, you would need to

determine whether each option upholds the individual rights and freedoms of the people involved. If a course of action compromises anyone's individual rights and freedoms, it should be discarded. One upside of the rights perspective is that it protects individuals' freedom and privacy. But one downside is that it can result in no action being taken at all. Another complication is that it all depends on what rights you consider.

The *justice view of ethics* focuses on making decisions by impartially applying rules, equitably distributing costs and benefits, and compensating those injured by inequity or discrimination. To apply a justice view of ethics you would need to fulfil principles of procedural, distributive and compensatory justice. Procedural justice requires that decision processes need to be consented to by those affected and to be administered impartially. Distributive justice requires that rewards and punishments be distributed equitably and based on performance. Compensatory justice requires that if distributive or procedural justice is compromised, those injured by the inequitable distribution of rewards should be compensated. Imposing standards of justice also comes with pluses and minuses. It protects the interests of those stakeholders who may be underrepresented or lack power, but it can encourage a sense of entitlement that reduces risk taking, innovation and productivity.

If we apply each of these ethical perspectives to our scenario, we can see how they would help you to determine whether it would be ethical to tell your team members to take the extra sick days. The utilitarian view of this dilemma would consider whether doing so

created the greatest good for the greatest number. If you did so, you would be creating good for the employees who worked over the weekend but not for any of the other stakeholders. This option clearly isn't creating the greatest good for the greatest number, so you shouldn't do it.

If we apply the rights perspective, we need to consider whether telling people to take the sick days upholds the rights and freedoms of everyone involved. If you consider that every employee has a right to be treated equally, it would be ethical to tell employees they could take the extra sick days *only* if that maintained everyone's right to equal treatment. In this situation, not everyone is being treated equally: some are being compensated for overtime and others are not. So, it wouldn't be ethical to give out the extra sick days.

Finally, if we apply a justice view to this scenario, we can determine if awarding the extra sick days fulfils the principles of distributive, procedural and compensatory justice. In this case, employees who will be affected by your decision to award extra sick days haven't consented to this process, so it doesn't have procedural justice. You also wouldn't be distributing equitably and based on performance, because not everyone who worked overtime would get the extra sick days. Can we use compensatory justice to justify awarding the extra sick days? Well, no, because compensatory justice requires compensation of people injured by the inequitable distribution of rewards. But, in this situation, awarding the extra sick days would be *creating* an unequal distribution of rewards rather than redressing

one. So, according to the justice view, it would be unethical to award the extra sick days.

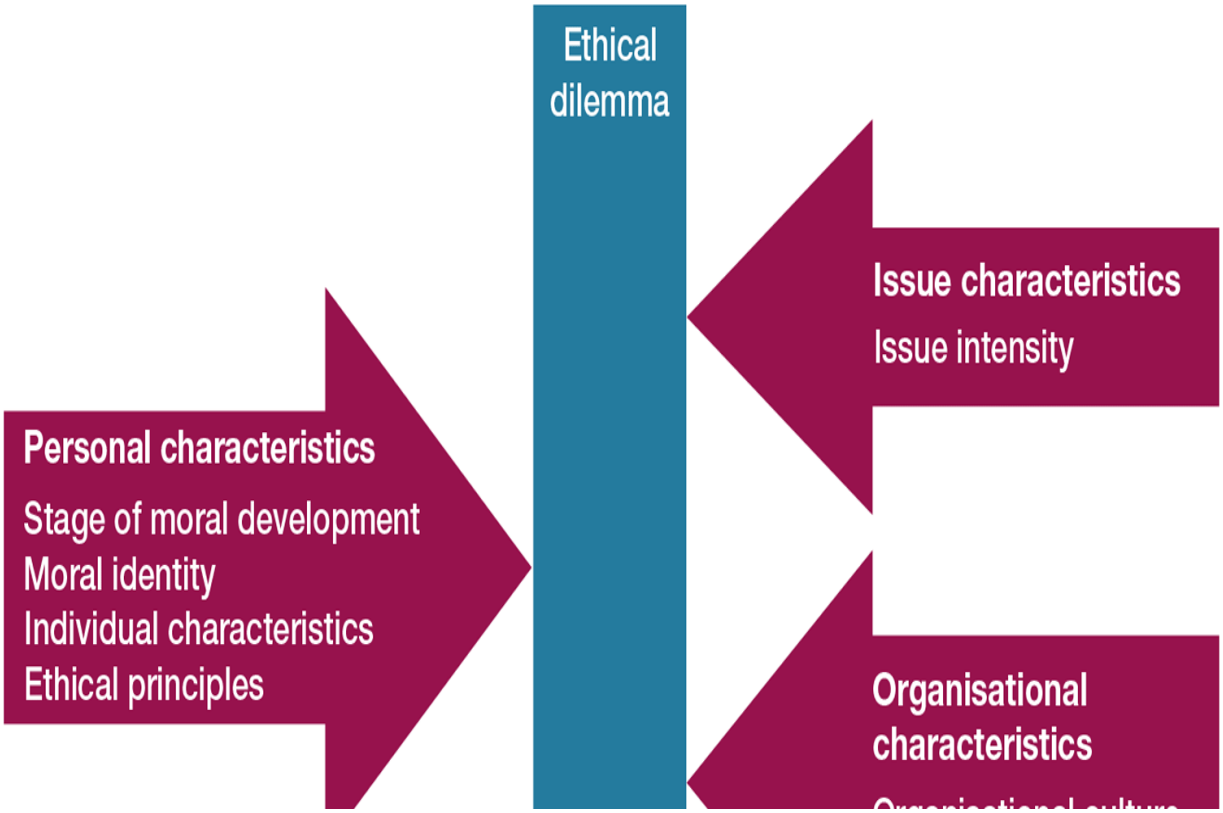
In this example, all three ethical perspectives concluded that telling your team members to take the extra sick days was an unethical thing to do. But each perspective gave a different reason as to why it was unethical. This highlights one of the most challenging aspects of managing ethical behaviour: that whether an action is ethical or not depends on how you look at it! It’s the reason why it is so important that decision makers can clearly identify and explain the values and ethical perspectives they are using to determine the ‘right’ thing to do. For this reason, we teach you how to do this in the Management Skills Spotlight at the end of this chapter.

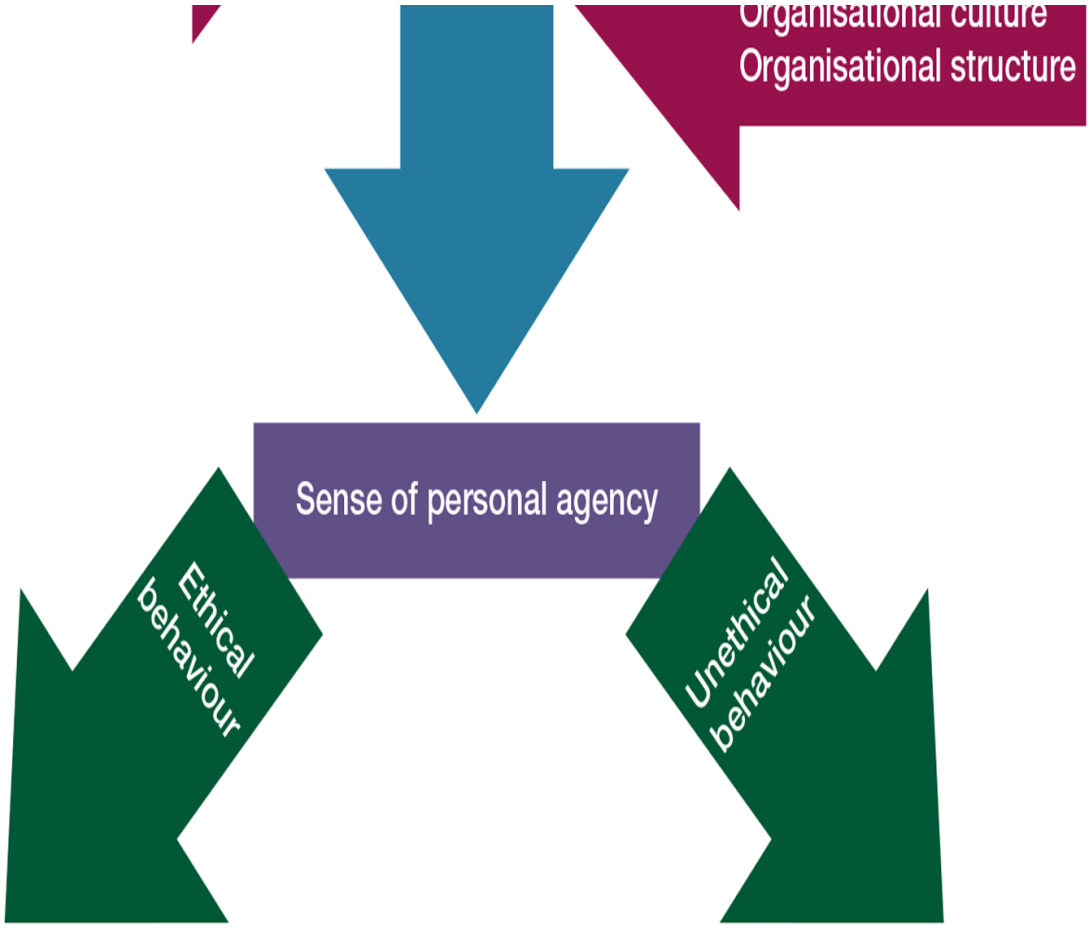
What factors influence ethical and unethical behaviour?

Learning outcome 4.4 Discuss factors that influence ethical and unethical behaviour.

How people behave when they face an ethical dilemma is influenced by their stage of moral development, their personal characteristics, their ethical principles, the intensity of the issue, the organisation's structure and its culture (see **Figure 4.2**).

Figure 4.2 Factors that affect ethical and unethical behaviour





The stage of a person's moral development will influence how they evaluate ethical options and their reasoning about what they should do and why. Research indicates that as people develop their moral judgment, they change the way they determine the 'right' thing to do.[18] Initially, they may define the 'right' course of action as the one that best serves their own self-interest by helping them to meet the expectations of authority figures, avoid getting punished for doing the 'wrong' thing or get rewarded for doing the 'right' thing. As their moral judgment develops, they define what is 'right' according to what other people think, whether these are the views of family members or role models, or the views of society that are defined in rules and law.

People with highly developed moral judgment determine the ‘right’ thing to do by using guiding principles they adopt for themselves, which may be universally held principles of rights and justice or their own personal ethical principles.

A person’s **moral identity** also influences how they determine the ‘right’ thing to do and whether they then do it. Moral identify is ‘the degree to which being a moral person is important to an individual’s identity’. It is made up of elements like their understanding of what it means to be a ‘moral’ person, the moral ideas and characteristics that are important to them as a person (e.g. the importance of telling the truth), and their ideas about how a ‘moral’ person behaves in certain circumstances, and how important it is to them to be ‘true to themselves’ and act morally. Studies have shown that whether people see unethical behaviour as an action or as reflecting on their identity will influence whether they behave ethically or not. For instance, in one study that tested this relationship, one group of people were asked ‘not to cheat’ and the second group were asked ‘not to be a cheater’. The incidence of unethical behaviour was higher in the group asked ‘not to cheat’ than it was in the group asked ‘not to be a cheater’.[19]

moral identity

The degree to which being a moral person is important to an individual’s identity

> Whether people act ethically or unethically depends on a lot of **different factors**.

Classic concepts in today's organisations: Moral behaviour stems from moral identity

For many years, people believed that all it took for someone to behave morally was for them to know how to do so.[20] This idea framed most of the theory and research about morality that was developed through the 20th century. But over time, studies have shown that moral reasoning – being able to figure out the moral thing to do – doesn't necessarily predict moral behaviour, and highly moral people don't always have particularly strong capabilities in moral reasoning.

Recently, scholars have suggested that whether a person behaves morally might have more to do with their moral identity. A person's moral identity is believed to begin developing in childhood, when people start to see themselves as 'good' boys or girls, and then develops through adolescence and adulthood as people develop their principles, life experiences, and sense of agency and responsibility. While scholars are still figuring out exactly *how* moral identify develops and changes over time, it's already clear that social interactions, and feedback from people around them, are

powerful influences. This suggests that managers and employees may be able to encourage moral behaviour in their organisations by helping people to link their identity as organisational members to an identity as a moral person. Moreover, they can influence people's idea of how to behave as a 'moral' organisational member by providing social cues and reinforcement of moral behaviours.

Discuss this

- Do you think today's organisations put more emphasis on moral judgment or moral reasoning? Put another way, do they focus more on people figuring out how to act morally, or on being a moral person?
- If moral identity is linked to a person's concept of themselves, how much do you think this can be influenced by their concept of themselves as an employee?

A question of ethics: Fuelling feelings

These days, companies can capture data about people any time they access a website, post on social media, do a search or purchase something online. But some companies have taken their use of such digital information into some pretty grey areas. Facebook, for example, manipulated news feeds of more than half a million randomly selected users to see how emotions spread on social media. Google, Yahoo, Amazon and others also manipulate and analyse this data, all under the guise of 'improving the user experience'.[21] Is it ethical to 'race to the bottom of the brainstem' and use technology to manipulate how people feel?[22]

Discuss this

- Do any of the three ethical approaches detailed in this chapter consider the manipulation of user emotions to be ethical?
- Some advocates of data analytics argue that users implicitly agree to this sort of manipulation when they agree to use the technology. Does that make it ethical to do?

Characteristics such as an individual's personality also affect how they handle ethical dilemmas. For example, studies have found that a person's levels of **empathy** and **narcissism** affect their likelihood of engaging in ethical decision making. Higher rates of empathy are positively associated with more ethical decision making, whereas higher rates of narcissism are associated with less ethical decision making. Studies have also found that each of the Big Five personality variables (agreeableness, conscientiousness, emotional stability, extroversion and openness to experience) (discussed in the chapter on understanding individual behaviour) influences how people behave as ethical leaders. Of the five, agreeableness and conscientiousness have been found to be particularly strong predictors of ethical leadership.[23]

empathy

The ability to understand other people's needs

narcissism

The degree to which people focus on themselves and their own interests ahead of those of other people

As we noted earlier, the specific ethical principles a person uses will also influence what they define as ‘ethical’ behaviour. For example, many Asian cultures subscribe to Confucian ethics. Confucian ethics define morally acceptable behaviour as characterised by compassion for fellow human beings (*ren*), moral righteousness (*yi*), observing correct etiquette and protocols when taking action (*li*), wisdom and trustworthiness. Moreover, Confucian ethics emphasise harmony, social relationships and obligations, reciprocity, and a focus on what’s best for society rather than what’s in the best interests of an individual person.[24] So, a person holding Confucian ethical values would hold very different views of ethical behaviour than, say, a person adopting utilitarian ethical principles.

Rethinking management in a global crisis: Moral behaviour stems from moral identity

During the COVID-19 pandemic, governments around the world tried to slow the spread of the virus by limiting physical human interactions. In Australia, this involved closing down ‘non-essential’ businesses, shutting down recreational areas and activities, encouraging people to work from home wherever possible, limiting the number of people who could attend certain types of events such as weddings and funerals, and introducing a ‘social distance’ of 1.5 metres from other people. The restrictions had immediate and widespread impacts on almost every aspect of human life. Knowing that people were tempted to disregard the restrictions, the government encouraged them to act ethically by emphasising the issue intensity of COVID infections. This included focusing on how the restrictions were preventing the spread of the virus, and on how infection rates had dropped quickly after restrictions were introduced. Other messaging humanised the fight to minimise infection rates by emphasising how it affected people such as health-care workers treating people with the virus, as well as the elderly and at-risk groups within the community.

The intensity of the issue is another influence on how people deal with ethical dilemmas. Issue intensity is determined by six

characteristics:[25]

- the amount of harm (or good) that is caused by the action
- how many people will be affected
- the likelihood that the action will actually cause the harm or good we expect
- how much time we expect will occur before the consequences of the action are felt
- the degree of consensus that the action is wrong
- how closely connected the decision maker feels to the people who are affected.

The stronger each of these characteristics is, the more intense the issue will be.

The organisation's structure can influence how people handle ethical dilemmas by influencing the types of dilemmas they face and the guidance they have in dealing with them. Formal organisational structures for assigning roles and responsibilities, managing performance and allocating rewards affect whether people make ethical choices by influencing the incentives and rewards for behaving in an ethical manner.[26] For instance, performance and reward systems that focus on quantification and money reduce social connection with others.[27] This can cause people to objectify each other and see other people as 'things', rather than as fellow human beings, reducing empathy and encouraging us to see them in more calculating and instrumental ways. For instance, instead of seeing a customer as a person with a problem we can help to solve, we would

just focus on how much money we could get them to spend. Rewards and incentive systems can also influence ethical behaviour by creating a moral hazard.[28] A moral hazard is a situation in which an incentive system is set up in such a way that it encourages someone to act in an immoral manner. If an incentive system is set up to only measure and reward the outcomes that are achieved, some people will do 'whatever it takes' to achieve those outcomes, even if that means acting in immoral ways.

The organisation's structure can also influence how people handle ethical dilemmas by influencing how much power they have. Studies have shown that how much power an individual wields can influence their perceptions of ethical dilemmas, and their likelihood of acting ethically, in three main ways.[29] First, when people exercise a lot of power, it makes them less accurate at predicting other people's emotions, and hence it's less likely that they will accurately understand that their behaviour might affect other people. Second, the more power people have, the less concern they show for other people and the more likely they are to think that they are entitled to do whatever they want. Third, the level of power a person has influences the opportunities they have to pursue their personal goals and self-interest, and the extent to which they are constrained by their social environment. This means that when an immoral person holds a position of power, they have more opportunity to act unethically and to pursue their own interests at the expense of others. But it also means that when a moral person holds a position of power, they have more opportunity to act ethically and to achieve good for others. This is yet another reason why it's important that

organisations carefully consider what types of people they appoint into positions of leadership and authority!

Organisational culture affects how people handle ethical dilemmas because, as we noted in the chapter on how organisations operate, it defines how people should behave. If the culture emphasises 'winning at all costs', then individuals are more likely to engage in unethical behaviour. Conversely, if the culture stresses ethical values and behaviours, then employees are more likely to make ethical choices.

One final factor that influences how a person handles an ethical dilemma is their sense of personal **agency**.[30] This refers to the extent to which they have control over their actions.[31] Personal agency influences how much freedom they have to determine how they will act in a situation, and how responsible they feel for their behaviour. So, it also has a powerful influence on whether they choose to act in an ethical or unethical manner, and how much responsibility they take for those choices. Research shows, for instance, that a person's sense of personal agency is increased when they can see how their personal actions, especially unethical behaviours, affect others. It has also shown that people's sense of personal agency is reduced when they work as part of a group, when they are working under the direction or instruction of others, and when their contribution is anonymous or otherwise unobserved.

agency

A person’s ability to act in a given situation

How can managers encourage ethical behaviour?

> Learning outcome 4.5 Identify methods that managers can use to encourage ethical behaviour.

Managers can encourage ethical behaviour by hiring employees with high ethical standards; however, they can also foster ethical actions by establishing an ethical culture, providing a code of ethics, leading by example, providing ethics training, and implementing protective mechanisms for employees who face ethical dilemmas.

Establishing an ethical culture

An ethical culture is one in which the shared concept of right and wrong behaviour reflects the core values of the organisation and influences the ethical decision making of employees. Ethical cultures champion clear ethical standards. In addition, organisational leaders model ethical behaviour and demand that employees also be committed to behaving ethically. In an ethical culture, employees and managers are open to discussing ethical issues, which reinforces ethical behaviour.[32]

Codes of ethics

Codes of ethics are popular tools for attempting to reduce ambiguity about what's ethical and what's not.[33] A **code of ethics** is a formal document that states an organisation's primary values and the ethical rules it expects managers and non-managerial employees to follow. Ideally, these codes should be specific enough to guide organisational members in what they're supposed to do, yet loose enough to allow for freedom of judgment. Research shows that 97 per cent of organisations with more than 10,000 employees have written codes of ethics. Even in smaller organisations, nearly 93 per cent have them.[34]

code of ethics

A formal document that states an organisation's primary values and the ethical rules it expects managers and non-managerial employees to follow

Developing a code of ethics for an organisation that operates in multiple countries and cultural systems is complex. Because ethical principles differ in different countries, managers need to understand how views of ethical behaviour might differ, and how to deal with those differences. Moreover, they must also decide whose view of 'ethical' behaviour should determine organisational actions. For example, when managers encounter practices that are ethical in the

local culture but unethical according to their home country, they have to decide whether to adopt the ethical principles of the local culture or apply those of their home country.

The effectiveness of codes of ethics depends heavily on whether management supports them and ingrains them into the corporate culture, and how individuals who break the codes are treated.[35] If management considers them to be important, regularly reaffirms their content, follows the rules themselves and publicly reprimands rule breakers, ethics codes can be a strong foundation for an effective corporate ethics program.[36]

> Ethical leaders **talk the talk** *and* **walk the walk**.

Ethical leadership

As a manager, what you *do* is far more important than what you *say* in getting employees to act ethically. For example, if managers take company resources for their personal use, or give some employees special favours, they imply that such behaviour is acceptable for everyone. Managers also set the tone by their reward and punishment practices. When an employee is rewarded for achieving impressive results in an ethically questionable manner, it indicates to others that those ways are acceptable. When an employee does something unethical, managers must discipline the offender and publicise the fact by making the outcome visible to everyone in the organisation. This practice sends a message that doing wrong has a

price and it's not in employees' best interests to act unethically! (See **Figure 4.3** for suggestions on being an ethical leader.)

Figure 4.3 Being an ethical leader

- Be a good role model by being ethical and honest.
- Tell the truth always.
- Don't hide or manipulate information.
- Be willing to admit your failures.
- Share your personal values by regularly communicating them to employees.
- Stress the organisation's or team's important shared values.
- Use the reward system to hold everyone accountable to the values.

Ethics training

Many organisations use ethics training programs to encourage ethical behaviour. For example, Yahoo! has developed an animated and interactive ethics training module that explains the company's code of conduct, provides resources to help employees understand it, and outlines scenarios that employees might face that require ethical judgment.[37] Critics of ethics training programs argue that people establish their individual value systems when they're young, so these are set before they become organisational members. However, several studies have shown that values can be learnt after early childhood, that teaching ethical problem solving can make an actual difference in ethical behaviours,[38] that training has increased

individuals' level of moral development,[39] and that ethics training increases awareness of ethical issues in business.[40]

Formal protective mechanisms

Formal protective mechanisms that protect and guide employees dealing with ethical dilemmas help to encourage and improve ethical behaviour. For example, an appointed ethics officer can help employees who face a dilemma to talk out the situation they face and the options they have, and may even champion the most ethical alternatives. Ethics hotlines and protection for people who do 'blow the whistle' (**whistleblowers**) on unethical practices help to identify unethical behaviour and signal that the organisation is really committed to ethical conduct.

The Code of Ethics and Professional Conduct for Engineers Australia[41] specifies four principles for engineers to follow in their professional practice: (1) demonstrate integrity; (2) practise competently; (3) exercise leadership; and (4) promote sustainability

Tetra Images, LLC/Alamy Stock Photo

whistleblower

A person who raises a concern about wrongdoing by an organisation or a group of people within it

Organisational rules and policies can guide ethical behaviour, but they can't cover every situation that requires ethical judgment.[42] Fundamentally, improving ethical conduct in any organisation relies on all employees, managers and non-managerial employees developing their skills in making ethical choices. Here are some strategies you can use to make more ethical choices.

- **Know your organisation's policy on ethics.** This policy will help you to clarify what is permissible and the managerial discretion you have. It becomes YOUR code of ethics.
- **Understand the ethics policy.** Just having the policy in your hand doesn't guarantee that it will achieve what it's intended to do. You need to fully understand it. If the policy doesn't exist, or doesn't cover the situation you face, you can still take several steps before you deal with the ethical dilemma.
- **Think before you act.** Ask yourself, 'Why am I going to do what I'm about to do? Is my reason valid?
- **Will my action injure someone?** Would I disclose to my boss or my family what I'm going to do?' Remember, it's *your* behaviour and *your* actions. You need to make sure that you're not doing something that will jeopardise your role as a manager, your organisation or your reputation.
- **Ask yourself what-if questions.** Use the following questions to help shape your actions: 'What if I make the wrong decision? What will happen to me? To my job? What if my actions were described, in detail, on the local TV news or in the newspaper?

Would it bother or embarrass me or those around me? What if I get caught doing something unethical? Am I prepared to deal with the consequences?'

- **Seek opinions from others.** You can also ask for advice from other managers. Maybe they've been in a similar situation and can share the benefit of their experience. Or maybe they can just listen and act as a sounding board for you.
- **Do what you truly believe is right.** You have a conscience, and you are responsible for your behaviour. Whatever you do, if you truly believe it was the right action to take, then what others say is immaterial. You need to be true to your own internal ethical standards. Ask yourself: 'Can I live with what I've done?'

Review

Chapter 4 summary

4.1 Explain how organisations can define their social responsibilities.

An organisation's 'social responsibilities' refers to its intentions to go beyond its legal and economic obligations to act in ways that are good for society. There are three main stances an organisation can take about its social responsibilities: (1) meeting social obligations; (2) being socially responsive; or (3) being socially responsible. Organisations that meet social obligations define their social responsibilities only in terms of doing what the law requires or what is necessary to meet their economic goals. Organisations that are socially responsive engage in social actions because there is demand for them and even social pressure to provide them. Organisations that are socially responsible engage in social actions because they are actively trying to have a positive impact on society, either by minimising harm or by doing something positive for society.

4.2 Examine the arguments for and against social responsibility.

The main arguments for organisations being social responsible are that there is a public expectation that they will act in such a way, that they have an ethical obligation to do so, that they have a responsibility to do so given the power they wield in society, and that they possess resources needed by charitable and community organisations to solve social problems. Other arguments are that,

by being socially responsible, they will enhance their public image, improve the external environment, help address social problems before they become even costlier to correct, reduce the likelihood of being forced to assist with social issues by government regulation, and enhance both long-term profitability and share prices. The main arguments against organisations being socially responsible are that doing so dilutes their focus and purpose, is costly, violates their responsibility to maximise profits, increases organisational power even further, and sees businesses engage in activities in which they lack both skills and accountability.

4.3 Discuss the approaches that managers can use to define ethical courses of action.

Deciding how to behave ethically involves three steps: (1) defining the dilemma or 'problem' you are trying to solve; (2) identifying the stakeholders affected by the decision being made; and (3) using ethical principles to determine how to behave ethically towards them. The *utilitarian view of ethics* defines ethical behaviour solely on the basis of outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. The *rights view of ethics* defines ethical behaviour as behaviour that respects and protects people's individual liberties and privileges, including the rights to privacy, freedom of conscience, free speech and due process. The goal of the rights view is to avoid interfering with the rights of others who might be affected by the decision. The *justice view of ethics* focuses on choosing actions that fulfil principles of procedural, distributive and compensatory justice. Procedural justice requires that decision

processes are consented to by those affected and are administered impartially. Distributive justice requires that rewards and punishments are distributed equitably and based on performance. Compensatory justice requires that if distributive or procedural justice is compromised, those injured by the inequitable distribution of rewards should be compensated.

4.4 Discuss factors that influence ethical and unethical behaviour.
How people behave when they face an ethical dilemma is influenced by their stage of moral development, their personal characteristics, their ethical principles, the intensity of the issue, and the organisation's structure and culture.

4.5 Identify methods that managers can use to encourage ethical behaviour.
Managers can encourage ethical behaviour by hiring employees with high ethical standards, establishing codes of ethics, leading by example, providing ethics training, and implementing protective mechanisms for employees who face ethical dilemmas.

Discussion questions

4.1 How are social responsibility, social obligation and social responsiveness different? How are they similar?
4.2 Should organisations be socially involved? Why or why not?
4.3 Describe how a manager would approach an ethical decision using the utilitarian approach.
4.4 ‘Under the utilitarian approach, an action that society considers wrong can still be considered ethical.’ Discuss.
4.5 How could using the rights view of ethics result in no action being taken?
4.6 What four conditions need to be fulfilled for a course of action to provide procedural and distributive justice?
4.7 How does a code of ethics help to encourage ethical behaviour by organisational members? Why might a code be ineffective at promoting ethical behaviour?
4.8 Discuss specific ways that managers can encourage people to act ethically.
4.9 How can organisational leaders be good role models of ethical behaviour?
4.10 Review the strategies for making ethical choices listed in the final section of this chapter. Which ones (if any) would you use?

Management skills spotlight: Doing the right thing

We all have our own beliefs and views about the ‘right’ things to do. It’s sometimes difficult to publicly state and follow these views, especially when we feel pressure to act otherwise. But it’s a huge part of any manager’s job! It’s easier to do when you have clear strategies for explaining to other people what you believe is the right thing to do, and *why* you believe that.

Experiential exercise

Promoting ethical behaviour isn't just about figuring out the 'right' thing to do and doing it. It's also about figuring out why people do the 'wrong' things. If we understand why people choose to follow unethical courses of action, we can change the circumstances so that next time they are faced with that choice, they are more likely to behave ethically instead. In this exercise, you're going to reflect upon your own experiences of doing something that felt wrong to you, and see what influenced that decision.

1. Think about a time you did something that felt 'wrong' to you. It may have been unethical, or just something that didn't sit right with your personal values.
2. Reflect on the situation and think about why you took the course of action that you did.
    a. Describe what happened. What situation were you in? What were the courses of action you had to choose from? Why did you choose the action that you did?
    b. Interpret your experience. Review the discussion in this chapter of factors that influence ethical and unethical behaviour. Did any of these factors influence your decision? Were there any other factors that influenced your choice?
    c. Evaluate your experience. What did you learn from it about factors that might cause someone to choose to

do the ‘wrong’ thing? What did you learn about *how* those factors influence people’s decision making?

d. How could you apply your insights in the future? If the same factors were present when you were choosing a course of action, how could you eliminate or minimise them?

Case application: Banking on getting away with it

In Australia, the banking industry is dominated by the 'Big Four' banks: the Commonwealth Bank of Australia (CBA), ANZ, National Australia Bank (NAB) and Westpac. They have a combined asset base of $3.6 trillion, which they use to generate the highest profits of any banks in the world. But in 2018, Australians were shocked to discover that the banks were generating those profits using practices described by one commentator as 'absolutely contemptible, unethical, probably illegal and just wrong'.[43]

The revelations occurred during Australia's Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Over several months, submissions and testimony provided to the Commission identified widespread and large-scale misconduct across the whole banking sector. Among other revelations,

- CBA admitted that over an eight-year period it had charged thousands of clients for financial advice the bank never provided, including fees for advice from financial planners who no longer worked for CBA. It also admitted to taking two years to notify the banking regulator, the Australian

Securities and Investments Commission (ASIC) that this had occurred.

- Another bank, AMP, admitted it had also charged customers fees for services the bank never provided or *intended* to provide, and had 'made a conscious decision . . . to protect the profitability of AMP at the expense of complying' with banking regulations. It also admitted to systematically misleading ASIC, with AMP's head of financial advice testifying that he had 'lost count' of the number of times AMP had made false or misleading statements to the regulator.
- ANZ admitted engaging in 'unfair and unethical' behaviour towards rural customers, and had not complied with the banking code of practice which requires that financial institutions assist clients when they are experiencing financial hardship. One example given was that ANZ had forced an 87-year-old farmer to leave his property even though he had never missed a mortgage payment.
- NAB admitted that, between 2013 and 2016, it had operated an 'introducer' program that involved about 8,000 non-financial experts such as gym instructors being paid commissions to refer people to NAB to apply for home loans. The program generated more than $24 billion in home loans for NAB, but it also led several NAB staff to establish a bribery ring. According to the whistleblower who notified NAB about the bribery ring, its members were paid 'cash payments in white envelopes' for getting loans

approved, which they then deposited at another bank so NAB couldn't track the deposits.
- Westpac, NAB and AMP admitted paying kickbacks to financial advisers even though these are illegal under the *Corporations Act*.

All five banks have literally been made to pay for their misconduct; CBA alone has had to refund $118.5 million to over 310,000 customers. The question now is how to prevent these practices from continuing.

Discussion questions

4.11 What view of social responsibility is illustrated by the banks?

4.12 Why should banks be socially responsible? What benefits have they cost themselves by acting as they have?

4.13 Using the utilitarian, rights and justice views of ethics, determine whether it is unethical for banks to pay kickbacks to financial advisers and 'introducers'.

4.14 Which of the factors illustrated in **Figure 4.2** do you think caused unethical behaviour by bank managers and employees?

4.15 What methods can bank managers use to encourage more ethical behaviour in future?

Running case: Holiday home helpers: Keeping it confidential

On Friday, Mia attended a staff induction session run by Nate. Afterwards, they met for a debrief.

‘Nate, I liked what you told the staff today about the ethical responsibilities we have towards our clients and their guests. I noticed a few startled faces when you started talking about people needing to conduct themselves ethically. I got a bit worried that we may have hired people who have a problem adhering to ethical standards! But when you explained that meant protecting the privacy and confidentiality of our clients and their guests, I realised that people perhaps just hadn’t thought about that kind of behaviour as being an “ethical responsibility” before now.’

‘Yes,’ said Nate. ‘I really like seeing people have that light bulb moment when they realise what I’m talking about. A lot of our employees have told me that until we discussed it in the training session, they hadn’t really thought about it being unethical to discuss what they learn about guests and property owners in the course of cleaning holiday homes. That’s why I think it’s so important to really spell it out. People understand pretty quickly that when you are a cleaner, you learn a lot

about what people get up to during their stay. We change the bed linen, we clean the bathrooms, we restock the fridge, we empty the bin. We see a lot! That's part of the job, and I think it's part of *our* ethical responsibility to acknowledge that, in the same way that we have an ethical responsibility to tell them how they should handle it when it happens.

'Yes,' said Mia. 'I liked your "pass it on" rule. Simple, but easy to remember and keep to. How did you come up with it?

'I thought about what people usually do when they learn some juicy gossip, and then I made that the rule,' said Nate. 'They can't help telling someone. That's why I said, "If you see anything that's a concern, yes, pass it on – to your teammate if you have one, and to your regional manager. No one else."'

'I'm glad you explained to them that it's our job – and no one else's! – to decide what to do with the information they give us. How do you decide which information to pass on to the property owners?'

'When they sign up with us, I ask them what they want to know,' said Nate. 'If they want to know what guests get up to, we'll tell them. As I see it, we aren't breaking the guests' privacy or confidentiality in sharing that information with the owners, because what we know is exactly what they would learn if they were cleaning the house themselves. But if they don't want to know anything, or they only want to know certain things, that's fine. After all, they are paying us to deal with these things for them so they don't have to know!'

‘So, why did you say they could tell their teammate?’ Mia asked.

‘Because they will anyway!’ said Nate. ‘Better they tell their teammate than someone outside the company. That’s why I really stressed today that it’s okay to tell, but not outside the company. If we hear that anyone has gossiped about anything related to a guest or a property owner, we come down very hard on that. That’s why I gave the example of the property owner we lost after a staff member had been gossiping about the person’s home and how popular it was as a holiday home. As I said, it’s the owner’s business how many people stay in their property: it’s our business to clean it so well it looks as if no one has, and to keep our mouths shut!’

Discussion questions

4.16 What stance do you think HHH takes about its social responsibilities: is it meeting its social obligations, being socially responsive, or being socially responsible?
4.17 Why should HHH be socially responsible? What benefits do you think it would generate if it was?
4.18 Using the utilitarian, rights and justice views of ethics, determine whether it would be ethical or unethical for HHH employees to discuss what they learn about guests with people outside the company.
4.19 Which of the factors illustrated in **Figure 4.2** do you think would have the most influence over whether

HHH employees gossiped about guests and property owners to people they weren't supposed to.

4.20 What methods is Nate using to encourage ethical behaviour by his employees?

Endnotes

1 R. Sroufe and D. Ramos, 'MBA Program Trends and Best Practices in Teaching Sustainability: Live Project Courses', *Decision Sciences Journal of Innovative Education*, September 2011, pp. 349–69.

2 Responsible Investment Association Australasia, 'What Is Responsible Investment?', **www.responsibleinvestment.org**, accessed 22 February 2013.

3 S. Farnsworth, 'Lawyer X Identified as Nicola Gobbo after Court Lifts Suppression Order on Informer 3838', *ABC News*, 1 March 2019; Australian Associated Press, 'Nicola Gobbo Grilled under Oath about How She Became Lawyer X', *The Guardian*, 4 February 2020; J. Gens, 'The Lawyer X Scandal Is a Massive Blow to the Criminal Justice System: Here's Why', *The Conversation*, 7 February 2019; N. Nielsen, 'Top Cop Leaks Lawyer X Identity, Brings Scandal Full Circle', *Lawyer Weekly*, 19 February 2020; and M. Brissenden, 'Lawyer X Scandal Has Rocked the Justice System. What Did the Top Cops Know?' *Four Corners*, 21 October 2019.

4 See, for example, N. A. Ibrahim, J. P. Angelidis and D. P. Howell, 'The Corporate Social Responsiveness Orientation of Hospital Directors: Does Occupational Background Make a Difference?', *Health Care Management Review,* Spring 2000, pp. 85–92.

5 See, for example, D. J. Wood, 'Corporate Social Performance Revisited', *Academy of Management Review*, October 1991, pp. 703–8; and S. L. Wartick and P. L. Cochran, 'The Evolution of the

Corporate Social Performance Model', *Academy of Management Review*, October 1985, p. 763.

6 'Soft Landing', **https://www.socialtraders.com.au/social-enterprise-awards/2016-awards/finalists/**; **www.softlanding.com.au/**.

7 See, for example, R. Lacy and P. A. Kennett-Hensel, 'Longitudinal Effects of Corporate Social Responsibility on Customer Relationships', *Journal of Business Ethics*, December 2010, pp. 581–97; S. Arendt and M. Brettel, 'Understanding the Influence of Corporate Social Responsibility on Corporate Identity, Image and Firm Performance', *Management Decision*, vol. 48, no. 10 (2010), pp. 1469–92; J. Peloza, 'The Challenge of Measuring Financial Impacts from Investments in Corporate Social Performance', *Journal of Management*, December 2009, pp. 1518–41; J. D. Margolis and H. Anger Elfenbein, 'Do Well by Doing Good? Don't Count on It', *Harvard Business Review*, January 2008, pp. 19–20; M. L. Barnett, 'Stakeholder Influence Capacity and the Variability of Financial Returns to Corporate Social Responsibility', *Academy of Management Review*, July 2007, pp. 794–816; D. O. Neubaum and S. A. Zahra, 'Institutional Ownership and Corporate Social Performance: The Moderating Effects of Investment Horizon, Activism and Coordination', *Journal of Management*, February 2006, pp. 108–31; B. A. Waddock and S. B. Graves, 'The Corporate Social Performance–Financial Performance Link', *Strategic Management Journal*, April 1997, pp. 303–19; J. B. McGuire, A. Sundgren and T. Schneeweis, 'Corporate Social Responsibility and Firm Financial Performance', *Academy of Management Journal*, December 1988, pp. 854–72; K. Aupperle, A. B. Carroll and J. D. Hatfield, 'An

Empirical Examination of the Relationship between Corporate Social Responsibility and Profitability', *Academy of Management Journal*, June 1985, pp. 446–63; and P. Cochran and R. A. Wood, 'Corporate Social Responsibility and Financial Performance', *Academy of Management Journal*, March 1984, pp. 42–56.

8 Managing for Diversity and Inclusion feature based on R. Stone, *Human Resource Management*, 9th edn (Milton Keynes, UK: John Wiley), p. 793.

9 J. Peloza, 'The Challenge of Measuring Financial Impacts from Investments in Corporate Social Performance', *Journal of Management*, December 2009, pp. 1518–41.

10 B. Seifert, S. A. Morris and B. R. Bartkus, 'Having, Giving and Getting: Slack Resources, Corporate Philanthropy and Firm Financial Performance', *Business & Society*, June 2004, pp. 135–61; and J. B. McGuire, A. Sundgren and T. Schneeweis, 'Corporate Social Responsibility and Firm Financial Performance', *Academy of Management Journal*, December 1988, pp. 854–72.

11 A. McWilliams and D. Siegel, 'Corporate Social Responsibility and Financial Performance: Correlation or Misspecification?', *Strategic Management Journal*, June 2000, pp. 603–9.

12 A. J. Hillman and G. D. Keim, 'Shareholder Value, Stakeholder Management and Social Issues: What's the Bottom Line?', *Strategic Management Journal*, vol. 22 (2001), pp. 125–39.

13 M. Orlitzky, F. L. Schmidt and S. L. Rynes, 'Corporate Social and Financial Performance', *Organization Studies*, vol. 24, no. 3 (2003), pp. 403–41.

14 Managing for Sustainability box feature based on R. Hotten, 'Volkswagen: The Scandal Explained', *BBC News*, 10 December

2015, **https://www.bbc.com/news/business-34324772**, accessed 21 April 2020; S. Glinton, 'How a Little Lab in West Virginia Caught Volkwagen's Big Cheat', *National Public Radio*, 24 September 2015, **https://www.npr.org/2015/09/24/443053672/how-a-little-lab-in-west-virginia-caught-volkswagens-big-cheat**, accessed 21 April 2020; J. Ewing, 'Engineering a Deception: What Led to Volkwagen's Diesel Scandal', *New York Times Online*, 16 March 2017; and M. Spector and M. Colias, 'VW Manager Sentenced in Fraud', *Wall Street Journal*, 7 December 2017, p. B2.

15 This example based on J. F. Viega, T. D. Golden and K. Dechant, 'Why Managers Bend Company Rules', *Academy of Management Executive*, May 2004, pp. 84–90.

16 S. A. DiPiazza, 'Ethics in Action', *Executive Excellence*, January 2002, pp. 15–16.

17 This section based on G. F. Cavanaugh, D. J. Moberg and M. Valasquez, 'The Ethics of Organizational Politics', *Academy of Management Journal*, June 1981, pp. 363–74; and M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007), pp. 153–6.

18 This section based on L. K. Treviño, G. R. Weaver and S. J. Reynolds, 'Behavioral Ethics in Organizations: A Review', *Journal of Management*, December 2006, pp. 951–90; and S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 6th edn (Sydney: Pearson, 2012), p. 181.

19 M. Piseta, 'The Psychology of Unethical Behaviour in the Finance Industry', in P. O'Sullivan, N. P. B. Allington and M. Esposito (eds), *The Psychology of Unethical Behaviour in the Finance*

Industry: From Hubris to Disgrace (London: Routledge, 2015), pp. 344–70.

20 Classic Concepts in Today's Organisations box feature based on S. Hardy and C. Gustavo, 'Moral Identity: What Is It, How Does It Develop, and Is It Linked to Moral Action?', *Child Development Perspectives*, July 2011, pp. 212–18; and A. Blasi, 'Moral Identity: Its Role in Moral Functioning', in B. Puka, *Moral Development: Fundamental Research in Moral Development* (New York: Taylor & Francis, 1994), pp. 168–80.

21 V. Goel, 'Facebook Tinkers with Users' Emotions in News Feed Experiment, Stirring Outcry', *New York Times Online*, 29 June 2014.

22 A. Cooper, 'What Is "Brain Hacking"? Tech Insiders on Why You Should Care', *60 Minutes*, 9 April 2017.

23 T. A. Brown, J. A. Sautter, L. Littvay, A. C. Sautter and B. Bearners, 'Ethics and Personality: Empathy and Narcissism as Moderators of Ethical Decision Making in Business Students', *Journal of Education for Business*, vol. 85, no. 4 (2010), pp. 203–8; and K. Kalshoven, D. N. Den Hartog and A. H. B. De Hoogh, 'Ethical Leader Behavior and Big Five Factors of Personality', *Journal of Business Ethics*, May 2011, pp. 349–66.

24 Explanation of Confucian ethics based on P. K. Ip, 'Is Confucianism Good for Business Ethics in China?', *Journal of Business Ethics*, September 2009, pp. 463–76.

25 Explanation based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 6th edn (Sydney: Pearson, 2012), pp. 185–6.

26 H. S. James, 'Reinforcing Ethical Decision Making through Organisational Structure', *Journal of Business Ethics*, November

2000, pp. 43–58.

27 M. Piseta, 'The Psychology of Unethical Behaviour in the Finance Industry', in P. O'Sullivan, N. P. B. Allington and M. Esposito (eds), *The Psychology of Unethical Behaviour in the Finance Industry: From Hubris to Disgrace* (London: Routledge, 2015), pp. 344–70.

28 M. Piseta, 'The Psychology of Unethical Behaviour in the Finance Industry', in P. O'Sullivan, N. P. B. Allington and M. Esposito (eds), *The Psychology of Unethical Behaviour in the Finance Industry: From Hubris to Disgrace* (London: Routledge, 2015), pp. 344–70.

29 M. Piseta, 'The Psychology of Unethical Behaviour in the Finance Industry', in P. O'Sullivan, N. P. B. Allington and M. Esposito (eds), *The Psychology of Unethical Behaviour in the Finance Industry: From Hubris to Disgrace* (London: Routledge, 2015), pp. 344–70.

30 This section based upon M. Piseta, 'The Psychology of Unethical Behaviour in the Finance Industry', in P. O'Sullivan, N. P. B. Allington and M. Esposito (eds), *The Psychology of Unethical Behaviour in the Finance Industry: From Hubris to Disgrace* (London: Routledge, 2015), pp. 360–1.

31 'Understanding Personal Agency', *Philosophical Therapist*, 21 March 2017, **https://philosophicaltherapist.com/2017/03/21/understanding-personal-agency/**, accessed on 30 April 2020.

32 M. Kaptein, 'Developing and Testing a Measure for the Ethical Culture of Organizations: The Corporate Ethical Virtues Model', *Journal of Business Ethics*, vol. 29 (2008), pp. 923–47.

33 D. H. Schepers, 'Setting Global Standards: Guidelines for Creating Codes of Conduct in Multinational Corporations', *Business and Society*, December 2003, p. 496; and B. R. Gaummitz and J. C. Lere, 'Contents of Codes of Ethics of Professional Business Organizations in the United States', *Journal of Business Ethics*, January 2002, pp. 35–49.

34 M. Weinstein, 'Survey Says: Ethics Training Works', *Training*, November 2005, p. 15.

35 T. F. Shea, 'Employees' Report Card on Supervisors' Ethics: No Improvement', *HR Magazine*, April 2002, p. 29.

36 See also A. G. Peace, J. Weber, K. S. Hartzel and J. Nightingale, 'Ethical Issues in eBusiness: A Proposal for Creating the eBusiness Principles', *Business and Society Review*, Spring 2002, pp. 41–60.

37 E. Finkel, 'Yahoo Takes New "Road" on Ethics Training', *Workforce Management Online*, July 2010.

38 T. A. Gavin, 'Ethics Education', *Internal Auditor*, April 1989, pp. 54–7.

39 L. Myyry and K. Helkama, 'The Role of Value Priorities and Professional Ethics Training in Moral Sensitivity', *Journal of Moral Education*, vol. 31, no. 1 (2002), pp. 35–50; and W. Penn and B. D. Collier, 'Current Research in Moral Development as a Decision Support System', *Journal of Business Ethics*, January 1985, pp. 131–6.

40 J. A. Byrne, 'After Enron: The Ideal Corporation', *BusinessWeek*, 19 August 2002, pp. 68–71; D. Rice and C. Dreilinger, 'Rights and Wrongs of Ethics Training', *Training & Development Journal*, May 1990, pp. 103–9; and J. Weber,

‘Measuring the Impact of Teaching Ethics to Future Managers: A Review, Assessment and Recommendations’, *Journal of Business Ethics*, April 1990, pp. 182–90.

41 Engineers Australia, ‘Code of Ethical Conduct and Professional Practice’, November 2019, **https://www.engineersaustralia.org.au/sites/default/files/resource-files/2020-02/828145%20Code%20of%20Ethics%202020%20D.pdf**.

42 X. Deroy and S. Clegg, ‘When Events Interact with Business Ethics’, *Organization*, vol. 18, no. 5 (2011), pp. 637–53.

43 G. Tacadena, ANZ Owns up to Unethical and Unfair Practices’, **www.yourmortgage.com.au**, 28 June 2018; C. Yeates and C. Waters, ‘ “Unethical” Banks under Scrutiny as Royal Commission Returns’, *Sydney Morning Herald*, 20 May 2018; P. Karp, N. Evershed and C. Knaus, ‘A Recent History of Australia’s Banking Scandals’, *The Guardian*, 19 April 2018; G. Hutchens, P. Karp and AAP, ‘Banking Royal Commission: CBA Agrees It Is the “Gold Medalist” at Fees for No Service’, *The Guardian*, 18 April 2018; G. Hutchens, ‘Banking Royal Commission: AMP Executive Says Company Put Profits before the Law’, *The Guardian*, 17 April 2018; G. Hutchens, ‘Banking Royal Commission: Details of NAB Staff in Bribery Ring Emerge’, *The Guardian*, 13 March 2018; and M. Janda, ‘Banking Royal Commission Report May Crack the Big Four Banks’ Financial Dominance’, *ABC News*, 11 February 2019.

Chapter **5** Making decisions

Fact or fiction?

The best managers are exempt from making common decision-making mistakes.

Fiction

It's tempting to conclude that managers, especially those in the upper ranks of organisations, have developed finely tuned decision skills; that they have learnt to avoid many common mistakes. However, the evidence suggests otherwise. Studies have found that ***executives frequently make the same mistakes that many of us make in our daily decisions***. For example, they'll stick with a bad decision rather than admit it was a mistake. In order to save face and attempt to demonstrate belief in their earlier decision, they'll commit further resources to a losing cause. They're also likely to selectively choose their options by seeking out information that reaffirms their past choices and discounting information that contradicts them.

Managers at all organisational levels and in all areas make a lot of decisions – routine and non-routine; minor and major. The overall quality of those decisions plays a big part in determining an organisation's success or failure. To be a successful manager – and a valued employee – you need to know about decision making. In this chapter, we'll look at types of decisions and how decisions should be made. But we'll also consider some common biases and errors that can undermine the quality of decisions and discuss contemporary issues facing managerial decision makers. The following case study about Essendon Football Club highlights some of the decision-making complexities we'll be examining in this chapter.

Learning outcomes

5.1 Describe the decision-making process.

5.2 Explain the three approaches managers can use to make decisions.

5.3 Describe the types of decisions and decision-making conditions managers face.

5.4 Discuss group decision making.

5.5 Discuss contemporary issues in managerial decision making.

Dramatic decisions

On 12 January 2016, the Australian football world was rocked by a dramatic announcement by the Court of Arbitration for Sport (CAS). After three years of investigations by the CAS, the Australian Football League (AFL) and the Australian Sports Anti-Doping Authority (ASADA), 34 past and present Essendon players were found guilty of using a banned substance. The decision was particularly dramatic because it directly contradicted the findings of the AFL Anti-Doping Tribunal's investigation of the matter. How could two tribunals arrive at two such different answers to the same question? Because they used different decision criteria.[1]

Stephen Dank’s actions as the sports scientist who oversaw Essendon’s supplements program resulted in the Australian Football League banning him for life from involvement with their sport.

Julian Smith/AAP

The decision both tribunals faced was whether members of Essendon Football Club had been injected with Thymosin Beta-4 (TB4). TB4 is a naturally occurring peptide that supports the health of cells, including the regeneration and repair of damaged tissue; it is also, according to World Anti-Doping Authority guidelines, an unregulated substance prohibited for use in competition. When the AFL tribunal

considered this issue, they focused on the question of whether Essendon players were administered TB4 by the club as part of its supplements program. The decision process the tribunal used required that ASADA prove three indispensable links in a chain of evidence: (1) that TB4 was procured from Chinese sources; (2) that South Yarra pharmacist Nima Alavi-Moghadam compounded the substance and provided it to Essendon's sport scientist, Stephen Dank; and (3) that the substance was injected into each player.

ASADA didn't rely upon direct evidence of doped athletes, or of witnesses. (It accepted this evidence, but ruled it out as unreliable.) Instead, it relied upon evidence such as emails, interviews, text messages and invoices. ASADA was unable to demonstrate that the substance received was indeed TB4, due to inadequacies in Essendon's record keeping about the supplement program's administration, and to the lack of laboratory testing and certification of a shipment received from China. Consequently, it was impossible for ASADA to prove the second and third links in the tribunal's chain of evidence. The tribunal determined that Dank did purchase TB4, but wasn't 'comfortably satisfied' that the substance was administered to players as part of the supplement program. Dank maintained that he had done nothing wrong.

In contrast, CAS's decision criteria followed a 'strands in the cable' argument, whereby all relevant forms of evidence deemed reliable and credible were considered cumulatively. This included evidence originally presented by ASADA to the

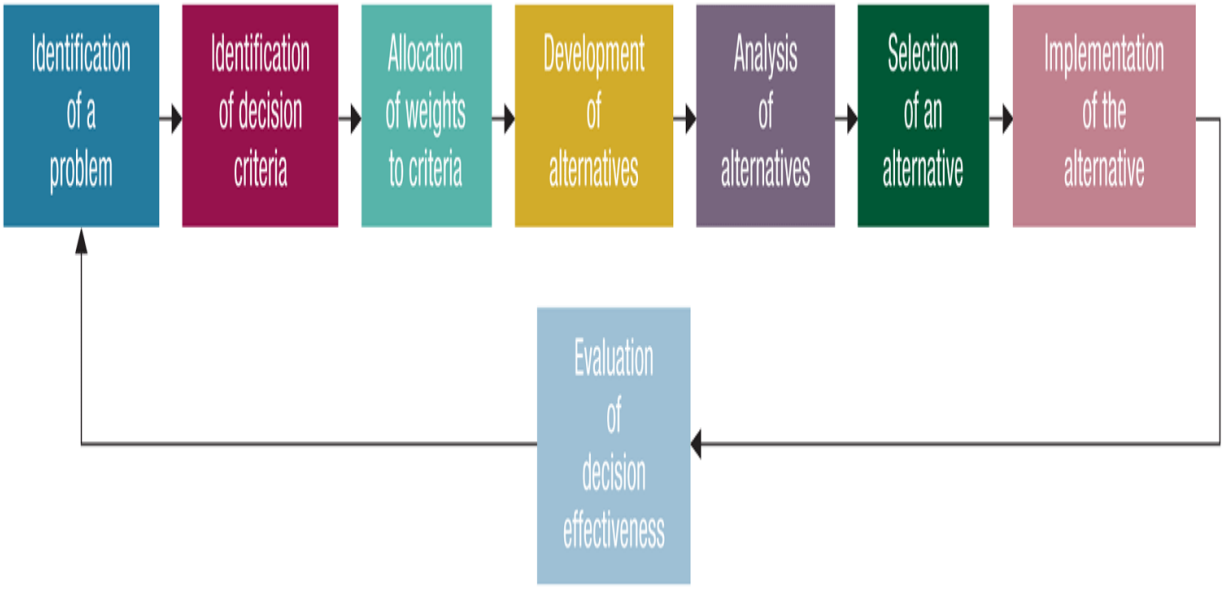
AFL tribunal, along with additional testimony of qualified medical and science experts and the results of frozen urine samples from two players that indicated the existence of abnormally high levels of TB4. The CAS didn't have to identify the source of the product, as other 'strands in the cable' provided sufficient evidence to indicate that TB4 was administered to players. This included evidence that Essendon players had signed a consent form for the injection of TB4, and had been secretive and deceptive about their supplementation regime by failing to disclose the injections received to club coaches and the club doctor, and failing to record the injection on the doping control forms. According to the CAS tribunal, players had no reason to be secretive about use of a substance that was openly approved for use within professional sport. According to ASADA chief executive Ben McDevitt, 'At best, the players did not ask the questions, or the people, they should have. At worst, they were complicit in a culture of secrecy and concealment.' In its ruling, the CAS panel concluded that the desire of the players to gain a competitive advantage led them to be insufficiently careful as to the substances they allowed into their bodies. Following the CAS ruling that players took the banned substance in 2012, all of Essendon's active players were suspended by the AFL for the 2016 season.

How do managers make decisions?

Learning outcome 5.1 Describe the decision-making process.

Decision making is typically described as choosing among alternatives, but this view is overly simplistic. Why? Because decision making is a *process*, not a single *act*. **Figure 5.1** illustrates the **decision-making process** as a set of eight steps that begins with identifying a problem; it moves through selecting an alternative that can alleviate the problem and concludes with evaluating the decision's effectiveness. This process is as applicable to your decision about what you're going to do on your summer holidays as it is to decisions Dean and Gill Belle are making as they shape their café's future (see Case Application at the end of the chapter). The process can also be used to describe both individual and group decisions. Let's take a closer look at the process in order to understand what each step entails by using a simple example most of us can relate to – the decision to buy a car.

Figure 5.1 The decision-making process



decision-making process

A set of eight steps that includes identifying a problem, selecting a solution and evaluating the effectiveness of the solution

What defines a decision problem?

Step 1. The decision-making process begins with the identification of a **problem** or, more specifically, a discrepancy between an existing and a desired state of affairs.[2] Take the case of a sales manager for Cadbury. The manager is on the road a lot and spent nearly $6,000 on repairs to her car over the past few years. Now the car has a blown engine and cost estimates indicate it's not economical to repair. Furthermore, convenient public transportation is unavailable. So, we have a problem – a discrepancy between the manager's need to have a car that works and the fact that her current one doesn't.

> ***problem***
>
> A discrepancy between an existing and a desired state of affairs

In our example, a blown engine is a clear signal to the manager that she needs a new car, but few problems are that obvious. In the real world, most problems don't come with neon signs identifying them as such. And problem identification is subjective. A manager who mistakenly solves the wrong problem perfectly is just as likely to perform poorly as the manager who fails to identify the right problem

and does nothing. So, how do managers become aware that they have a problem? They have to make a comparison between current reality and some standard, which can be (1) past performance, (2) previously set goals or (3) the performance of some other unit within the organisation or in other organisations. In our car-buying example, the standard is previous performance – a car that runs.

The steps involved in buying a vehicle provide a good example of the decision-making process. For this young manager, the process starts with the first step of identifying the problem of needing a car so that she can perform her job and ends with the last step in the process of evaluating the results of her decision.

Yulai Studio/Shutterstock.com

> Identifying problems is **IMPORTANT . . . and CHALLENGING**![3]

What is relevant in the decision-making process?

Step 2. Once a manager has identified a problem that needs attention, the **decision criteria** that will be important in solving the problem must be identified. In our vehicle-buying example, the sales manager assesses the factors that are relevant in her decision, which might include criteria such as price, model (two-door or four-door), size (compact or intermediate), manufacturer (French, Japanese, South Korean, German, American), optional equipment (navigation system, side-impact protection, leather interior) and fuel efficiency. These criteria reflect what she thinks is relevant in her decision. Every decision maker has criteria – whether explicitly stated or not – that guide their decision making. Note that in this step in the decision-making process, what's *not* identified is as important as what *is*. If the sales manager doesn't consider colour to be a criterion, then it won't influence her choice of car. If a decision maker doesn't identify a particular factor in this second step, it's treated as irrelevant.

decision criteria
Factors that are relevant in a decision

How does the decision maker weight the criteria and analyse alternatives?

Decision criteria aren't all equally important.[4] It's necessary, therefore, to allocate weights to the items listed in step 2 in order to give them their relative priority in the decision (**step 3**). A simple approach is to give the most important criterion a weight of 10 and then assign weights to the rest against that standard. Thus, in comparison to a criterion that you gave a 5, the highest-rated factor is twice as important. The idea is to use your personal preferences to assign priorities to the relevant criteria in your decision, as well as to indicate their degree of importance by assigning a weight to each. **Table 5.1** lists the criteria and weights that our manager developed for her vehicle replacement decision. Price is the most important criterion in her decision, with performance and handling having low weights.

Table 5.1 Important criteria and weights in a car-buying decision

Then the decision maker lists the alternatives that could succeed in resolving the problem (**step 4**). No attempt is made in this step to evaluate these alternatives, only to list them.[5] Let's assume that our manager has identified six cars as viable choices: Ford Focus,

Hyundai Elantra, Volkswagen Golf, Toyota Prius, Mazda 3 and Toyota Camry.

Once the alternatives have been identified, the decision maker must critically analyse each one (**step 5**). Each alternative is evaluated by appraising it against the criteria. The strengths and weaknesses of each alternative become evident as they're compared with the criteria and weights established in steps 2 and 3. **Table 5.2** shows the assessed values that the manager put on each of the six alternatives after she had test-driven each car. Keep in mind that the ratings shown in **Table 5.2** are based on the assessment made by the sales manager. Again, we're using a scale of 1 to 10. Some assessments can be achieved in a relatively objective fashion. For example, the purchase price represents the best price the manager can get from local dealers, and consumer magazines report data from owners on fuel efficiency. However, the assessment of handling is clearly a personal judgment.

Table 5.2 Assessment of possible car alternatives

Judgments are reflected in the criteria chosen in step 2, the weights given to the criteria and the evaluation of alternatives. The influence of personal judgment explains why two car buyers with the same amount of money may look at two totally distinct sets of alternatives, or even look at the same alternatives and rate them differently.

Table 5.2 shows only an assessment of the six alternatives against the decision criteria; it doesn't reflect the weighting done in step 3. If

one choice had scored 10 on every criterion, you wouldn't need to consider the weights. Similarly, if the weights were all equal – that is, all the criteria were equally important to you – each alternative would be evaluated merely by summing up the appropriate lines in **Table 5.2**. For example, the Ford Focus would have a score of 40, and the Toyota Camry a score of 43. If you multiply each alternative assessment against its weight, you get the figures in **Table 5.3**. For example, the Hyundai Elantra scored a 30 on durability, which was determined by multiplying the weight given to durability [5] by the manager's appraisal of Elantra on this criterion [6]. The sum of these scores represents an evaluation of each alternative against the previously established criteria and weights. Notice that the weighting of the criteria has changed the ranking of alternatives in our example. The Volkswagen Golf, for example, has gone from first to third. Looking at the analysis, both initial price and interior comfort worked against the Volkswagen.

Table 5.3 Evaluation of car alternatives: Assessment criteria × criteria weight

> Most decisions contain **judgments**.

What determines the best choice?

Step 6 is the critical act of choosing the best alternative from among those assessed. Since we determined all the pertinent factors in the decision, weighted them appropriately, and identified and assessed the viable alternatives, this step is fairly simple. We merely have to choose the alternative that generated the highest score in step 5. In our vehicle example (**Table 5.3**), the manager would choose the Toyota Camry. On the basis of the criteria identified, the weights given to the criteria and her assessment of each car on the criteria, the Toyota Camry scored highest [224 points] and, thus, became the best alternative.

What happens in decision implementation?

Although the choice process is completed in the previous step, the decision may still fail if it's not implemented properly (**step 7**). Therefore, this step, **decision implementation**, involves putting the decision into action. If others will be affected by the decision, implementation also includes conveying the decision to those affected and getting their commitment to it.[6]

decision implementation
Putting a decision into action

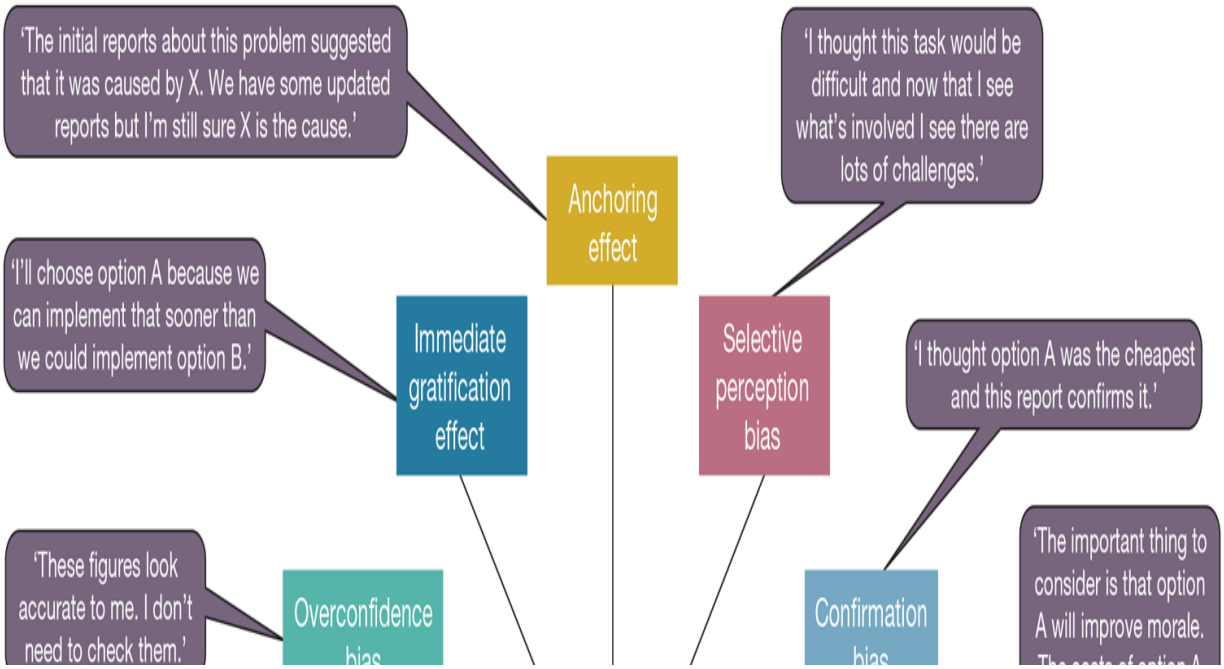
What is the last step in the decision process?

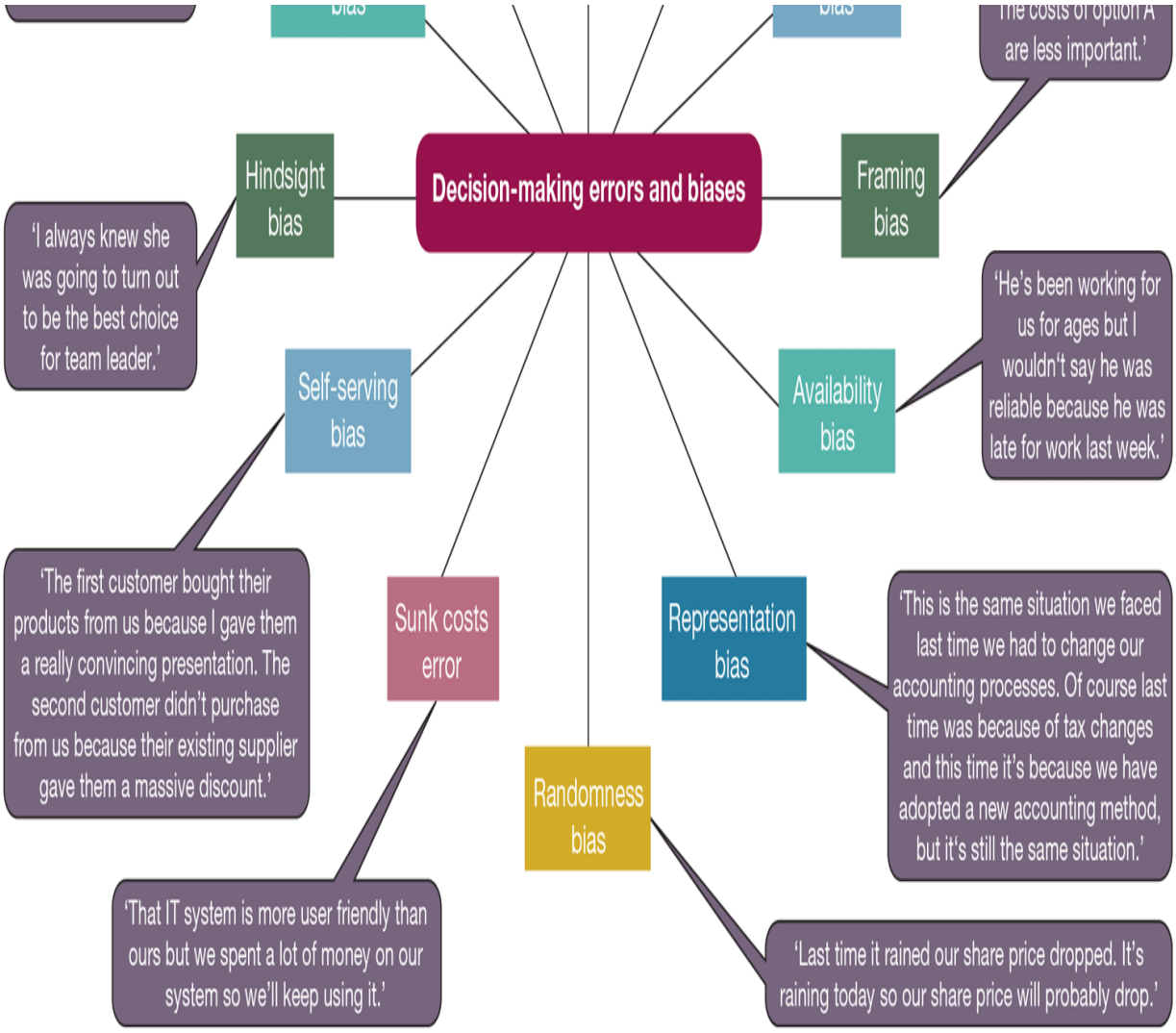
In the last step in the decision-making process, **step 8**, managers appraise the outcome of the decision to see whether the problem was resolved. Did the alternative chosen in step 6 and implemented in step 7 accomplish the desired result? For our sales manager, that means does she have a car that works reliably? Evaluating the results of a decision is part of the managerial control process, which we'll discuss in the chapter on controlling work and organisational processes.

What common errors are committed in the decision-making process?

When managers make decisions, they use their own particular style, and may use 'rules of thumb', or **heuristics**, to simplify their decision making.[7] Rules of thumb can be useful because they help make sense of complex, uncertain and ambiguous information. However, they may lead to errors and biases in processing and evaluating information. **Figure 5.2** identifies 12 common decision errors and biases that managers make. Let's look briefly at each.[9]

Figure 5.2 Common decision-making errors and biases





heuristics

Judgmental shortcuts or 'rules of thumb' used to simplify decision making

Managing for sustainability: Deciding how to ‘go green’

‘Managing for sustainability’ means that managers need to incorporate sustainability considerations into all organisational decisions. But making such decisions can be much more complicated than you might think! For example, imagine that a manager wanted to know whether it would be more environmentally sustainable to use email or direct mail to reach customers.[8] They would first have to define what they actually want to achieve by making the organisation ‘more environmentally sustainable’. Does this mean ‘minimising carbon emissions’? ‘Reducing waste generation’? Both?

Assuming the manager wants to reduce the organisation’s carbon emissions, they then need to evaluate the carbon emissions for both email and direct mail. If they just calculated the carbon required to create the message using word processing software, they might find the two options are roughly comparable. But how the messages are sent, and how they are received by customers, also affects the calculation of carbon emission. For example, an email that is filtered or auto-deleted by a spam filter has a carbon footprint of about 0.3 grams. If the email is opened, read, forwarded or replied to,

this can add another 4 grams of carbon. If the email also has an attachment, that can add another 20 grams. In contrast, sending ‘snail mail’ emits carbon in the production of the paper and the envelope, in printing the message, in collecting, carrying and delivering the letter to the addressee, and in opening and reading the letter.

So, as you can see, managing for sustainability requires that managers think carefully about what decisions to make, and how they make those decisions!

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they are exhibiting the *overconfidence bias*. The *immediate gratification effect* describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those in the future. The *anchoring effect* describes when decision makers fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information. When decision makers selectively organise and interpret events based on their biased perceptions, they are using the *selective perception bias*. Decision makers who exhibit the *confirmation bias* tend to accept at face value information that confirms their preconceived views and are critical and sceptical of information that challenges these views. The *framing bias* is when decision makers draw attention to specific aspects of a situation while at the same time downplaying or omitting other aspects. The *availability bias* is when decision makers tend to remember events

that are the most recent and vivid in their memory, distorting their ability to recall events in an objective manner. Managers exhibiting the *representation bias* assess the likelihood of an event based on how closely it resembles other events or sets of events, seeing identical situations where they don't exist. The *randomness bias* describes when decision makers try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance, even though random events happen to everyone and there is nothing that can be done to predict them. The *sunk costs error* is when decision makers forget that current choices can't correct the past. Instead of ignoring sunk costs, they can't forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors are exhibiting the *self-serving bias*. Finally, the *hindsight bias* is the tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.

Managers can avoid the negative effects of these decision errors and biases by being aware of them and then not using them! Beyond that, managers also should pay attention to 'how' they make decisions and try to identify the heuristics they typically use and critically evaluate how appropriate those are. Finally, managers might want to ask those around them to help identify weaknesses in their decision-making style and try to improve on them.

> Which of these biases **are YOU guilty of** when making decisions?

What are the three approaches managers can use to make decisions?

> Learning outcome 5.2 Explain the three approaches managers can use to make decisions.

Although everyone in an organisation makes decisions, decision making is particularly important to managers because, as **Table 5.4** shows, it's part of all four managerial functions. In fact, that's why we say that decision making is the essence of management.[10] Let's look at three perspectives on how managers make decisions.

Table 5.4 Decisions managers may make

What is the rational model of decision making?

‘Good’ decision makers are supposed to do certain things and exhibit good decision-making behaviours as they identify problems, consider alternatives, gather information and act decisively but prudently. When they do so, they show others that they’re competent and that their decisions are the result of intelligent deliberation.

Managers are expected to act rationally when making decisions.[11] **Rational decision making** means making logical and consistent choices to maximise value, and following the decision process we outlined earlier in the chapter.[12] But you should be aware that the rational model of decision making represents an ideal scenario and is also based on several key assumptions about the decision context.[14] First, it assumes that the decision maker is fully objective and logical, faces a problem that is clear and unambiguous, has a clear and specific goal, and knows all the possible alternatives that exist for dealing with the problem. Second, it assumes that the decision maker has all the information they need about every option that is available, can consistently compare the merits of each option, and can be certain about the consequences of adopting any given alternative. These assumptions apply to any decision, personal or managerial. However, for managerial decision making, we need to add one

additional assumption: the decision maker makes decisions in the best interests of the organisation. In real life, of course, the assumptions of the rational model don't always apply, but the next concept can help explain how most decisions actually get made in organisations.

rational decision making

Describes choices that are consistent and value-maximising within specified constraints

A question of ethics: Building believability with the beauty mark

CVS Pharmacy is one of the largest retail pharmacies in the United States, marketing to over 100 million consumers each year. In early 2018, the company announced its intention to 'lead positive change around transparency in beauty imagery' by explicitly identifying whether beauty images were authentic or digitally altered.[13] Authentic images that had not been 'materially enhanced' by changes to the person's 'shape, size, proportion, skin or eye colour, wrinkles or any other individual characteristics' would be watermarked with the company's CVS Beauty Mark. According to CVS Pharmacy, the purpose of this initiative is to provide more realistic, authentic and diverse representations of natural beauty, and to 'counter limiting stereotypes' that contribute to the development of unrealistic body images. Within 12 months, nearly 70 per cent of the company's marketing imagery bore the CVS Beauty Mark, and beauty brand partners such as Neutrogena, COVERGIRL, Maybelline, L'Oreal and Unilever had committed to its goal of 'full beauty imagery transparency by the end of 2020'.

Discuss this

- What ethical issues arise with the use of digitally altered beauty images?
- Who are the stakeholders affected by the decisions of CSV Pharmacy and beauty companies to use unaltered beauty images? How are they affected by these decisions?

What is bounded rationality?

The **bounded rationality** model of decision making recognises that managers are rational within the limits (bounds) of their own abilities and the decision situation. This model considers how the decision-making process occurs within limited or incomplete knowledge about alternatives and consequences, and recognises that decision makers have cognitive limits to the amount of information they can process. According to the bounded rationality model, under these circumstances individuals will still identify their problem and the criteria they will use to evaluate alternatives, but will then search for alternatives that could solve the problem and evaluate them with limited information. This leads to **satisficing**, which means that decision makers search for alternatives that fit their decision criteria and are 'good enough' to solve the problem; they then consider that range of options, rather than developing a comprehensive list of every possible alternative and formally evaluating them all.[15] Let's look at an example.

bounded rationality

Making decisions that are rational within the limits of a manager's ability to process information

satisficing

Accepting solutions that are 'good enough'

Suppose that you are studying finance and upon graduation you want a job, preferably as a personal financial planner, with a minimum salary of $42,000 and located no more than 50 km from where you live. You're offered a job as a business credit analyst – not exactly a personal financial planner, but still in the finance field – at a bank 20 km from where you live at a starting salary of $38,000. Since this seems close enough to your ideal job, you take it. You weren't a perfectly rational decision maker because you didn't maximise your decision by searching all possible alternatives and then choosing the best. If you had, you might have discovered a job in personal financial planning at a trust company only 15 km from where you live and starting at a salary of $43,000. But because the first job offer was satisfactory (or 'good enough'), you behaved in a boundedly rational manner by accepting it.

Most decisions that managers make are also influenced by the organisation's culture, internal politics, power considerations and a phenomenon called **escalation of commitment**, which is an increased commitment to a previous decision despite evidence that it may have been wrong.[17] Decision makers escalate commitment to a bad decision because they don't want to admit that their initial decision may have been flawed. Rather than search for new

alternatives, they simply increase their commitment to the original solution.

escalation of commitment

An increased commitment to a previous decision despite evidence that it may have been a poor one

Classic concepts in today's organisations: When faced with too many choices, we satisfice!

Bounded rationality and satisficing are the focus of the work of Herbert A. Simon, who won a Nobel Prize in economics for his study of decision making. His primary concern was how people use logic and psychology to make choices. He proposed that individuals were limited in their ability to 'grasp the present and anticipate the future' because human brains are limited in how much information they can process. This bounded rationality makes it difficult for them to 'achieve the best possible decisions', he argued; instead, they make 'good enough' or 'satisficing' choices.[16]

Simon's important contributions to management thinking came through his belief that in order to study and understand organisations, it's necessary to study the complex network of decisional processes that are inherent in them. His work in bounded rationality helps us make sense of how managers can behave rationally and still make satisfactory decisions, even given the limits of their capacity to process information.

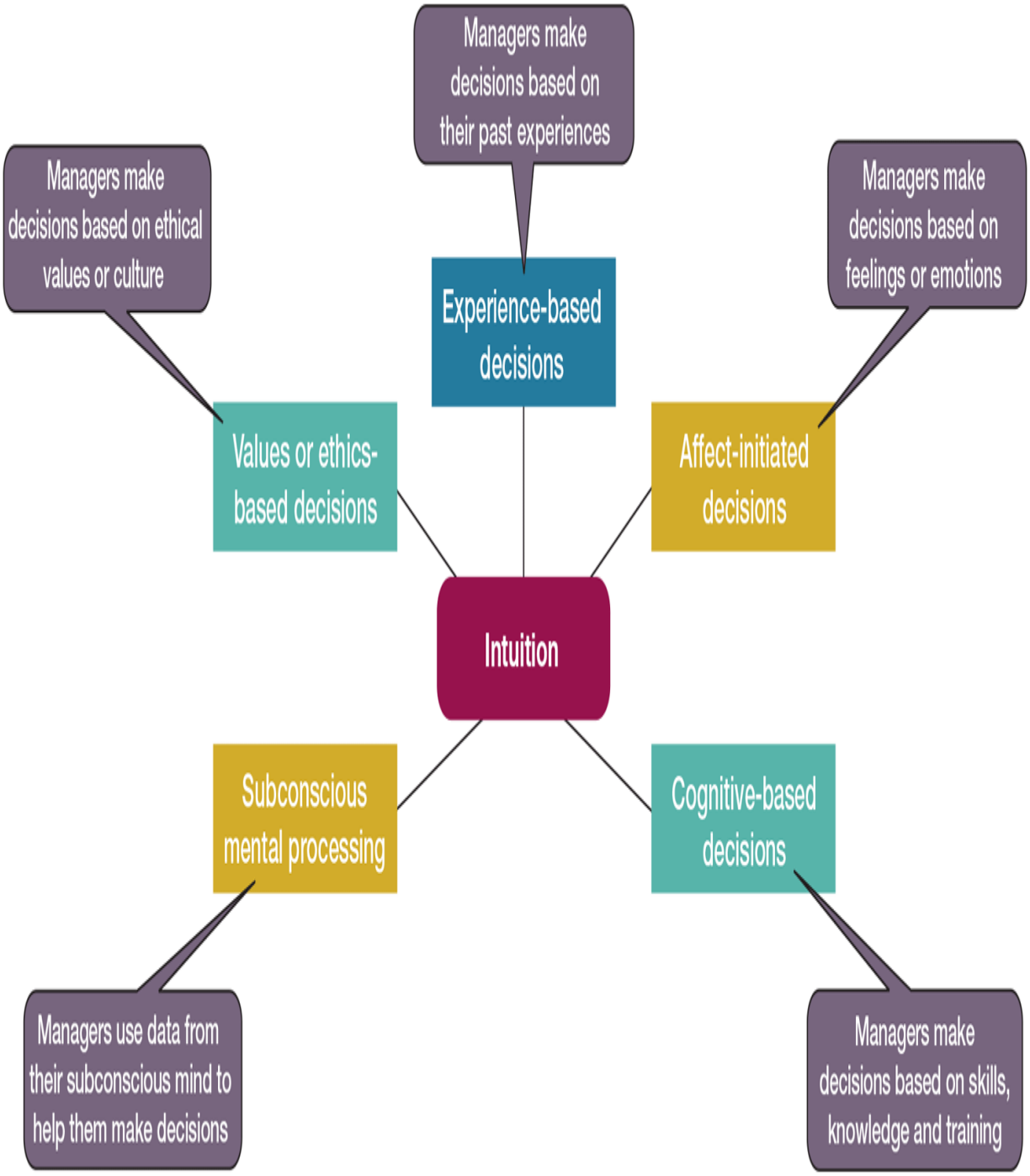
Discuss this

- Is satisficing settling for second best? Discuss.
- Today's managers can access huge amounts of information due to 'big data' and the internet. How does knowing about bounded rationality help managers be better decision makers?

What role does intuition play in managerial decision making?

Managers often use their intuition to help their decision making. One survey found that almost half of the executives surveyed ‘used intuition more often than formal analysis to run their companies’.[18] **Intuitive decision making** is making decisions on the basis of experience, feelings and accumulated judgment. It’s been described as ‘unconscious reasoning’.[19] Researchers studying managers’ use of intuitive decision making have identified five different aspects of intuition, which are described in **Figure 5.3**.[20]

Figure 5.3 What is intuition?



Sources: Based on 'Exploring Intuition and Its Role in Managerial Decision Making', Academy of Management Review, January 2007, pp. 33–54; M. H. Bazerman and D. Chugh, 'Decisions without Blinders', Harvard Business Review, January 2006, pp. 88–97; C. C. Miller and R. D. Ireland, 'Intuition in Strategic Decision Making: Friend or Foe in the Fast-Paced 21st Century?', Academy of Management Executive, February 2005, pp. 19–30;

E. Sadler-Smith and E. Shefy, 'The Intuitive Executive: Understanding and Applying "Gut Feel" in Decision-Making', Academy of Management Executive, November 2004, pp. 76–91; L. A. Burke and J. K. Miller, 'Taking the Mystery Out of Intuitive Decision Making', Academy of Management Executive, October 1999, pp. 91–9; and W. H. Agor, 'The Logic of Intuition: How Top Executives Make Important Decisions', Organizational Dynamics, Winter 1986, pp. 5–18.

intuitive decision making

Making decisions on the basis of experience, feelings and accumulated judgment

Intuitive decision making can complement both bounded rationality and rational decision making.[21] First of all, a manager who has had experience with a similar type of problem or situation can often act quickly with what appears to be limited information because of that past experience. In addition, a recent study found that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.[22]

What types of decisions and decision-making conditions do managers face?

> Learning outcome 5.3 Describe the types of decisions and decision-making conditions managers face.

The types of problems managers face in decision-making situations often determine how the problem is treated. In this section, we describe a categorisation scheme for problems and types of decisions, and then show how the type of decision making a manager uses should reflect the characteristics of the problem.

How do problems differ?

Some problems are straightforward. The goal of the decision maker is clear, the problem familiar, and information about the problem easily defined and complete. Examples might include a supplier who is late with an important delivery, a customer who wants to return an online purchase, a TV news team that has to respond to an unexpected and fast-breaking event, or a university that must help a student get their grade reviewed. Such situations are called **structured problems**.

> ***structured problem***
>
> A straightforward, familiar and easily defined problem

Many situations faced by managers, however, are **unstructured problems**. They are new or unusual, and information about them is ambiguous or incomplete. Examples of unstructured problems include the decision to enter a new market segment, to hire an architect to design a new office building, to merge two organisations, or to invest in a new, unproven technology.

unstructured problem

A problem that is new or unusual for which information is ambiguous or incomplete

How does a manager make programmed decisions?

Just as problems can be divided into two categories, so too can decisions. Programmed, or routine, decision making is the most efficient way to handle structured problems. However, when problems are unstructured, managers must rely on non-programmed decision making in order to develop unique solutions.

Decisions are programmed to the extent that they are repetitive and routine, and a specific approach has been worked out for handling them. Programmed decision making is relatively simple and tends to rely heavily on previous solutions. In many cases, programmed decision making becomes decision making by precedent. Because the problem is well structured, the manager doesn't have to go to the trouble and expense of an involved decision process. Once the structured problem has been defined, its solution is usually self-evident or at least reduced to only a few alternatives that are familiar and that have proved successful in the past. Rather than develop a list of alternative courses of action, managers simply do what they and others have done previously in the same situation. Consider the situation of a motor mechanic who is changing a customer's tyre and damages the wheel rim. Because this is a structured problem that has probably occurred before, it's considered a **programmed decision**. The damaged rim doesn't require the manager to

identify and weight decision criteria or develop a long list of possible solutions. Rather, the manager falls back on a systematic rule, policy or procedure, which might, for example, specify that the rim be replaced at the company's expense. In fact, programmed decisions are the key to success for franchise businesses such as Mad Mex and Coffee Club. When a person buys the right to operate a franchised business, one of the things they are purchasing is a detailed and pre-tested operating system. Detailed rules, policies and procedures specify how the business should be run, ensuring that every company outlet operates in exactly the same way. So, when a problem arises, the franchisee simply follows the specified procedure for solving it.

programmed decision

A repetitive decision that can be handled using a routine approach

For structured problems, use:

— procedures

— rules

— policies

Procedures

A **procedure** is a series of interrelated sequential steps that a manager can use when responding to a well-structured problem. The only real difficulty is identifying the problem. Once the problem is clear, so is the procedure. For example, a purchasing manager receives a request from computing services for licensing arrangements to install 250 copies of Norton Antivirus Software. The purchasing manager knows that a definite procedure is in place for handling this decision. If the request is complete, the approximate costs are estimated. If the total exceeds $8,500, three bids must be obtained. If the total is $8,500 or less, only one vendor needs to be identified and the order placed. The decision-making process is merely the execution of a simple series of sequential steps.

> ***procedure***
>
> A series of interrelated, sequential steps used to respond to a structured problem

Rules

A **rule** is an explicit statement that tells a manager what they must – or must not – do. Rules are frequently used by managers who confront a structured problem because they're simple to follow and

ensure consistency. In the preceding example, the $8,500 cutoff rule simplifies the purchasing manager's decision about when to use multiple bids.

rule
An explicit statement that tells employees what can or cannot be done

Policies

A third guide for making programmed decisions is a **policy**. It provides guidelines to channel a manager's thinking in a specific direction. The statement that 'we promote from within, whenever possible' is an example of a policy. In contrast to a rule, a policy establishes parameters for the decision maker, rather than specifically stating what should or shouldn't be done. Policies often leave interpretation up to the decision maker. It's in such instances that ethical standards may come into play.

policy
A guideline for making decisions

How do non-programmed decisions differ from programmed decisions?

When problems are unstructured, managers must rely on **non-programmed decisions** in order to develop unique solutions. Examples of non-programmed decisions include deciding whether to acquire another organisation, which global markets offer the most potential, or whether to sell off an unprofitable division. Such decisions are unique and non-recurring. When a manager confronts an unstructured problem, no cut-and-dried solution is available. A custom-made, non-programmed response is required.

> ***non-programmed decision***
>
> A unique and non-recurring decision that requires a custom-made solution

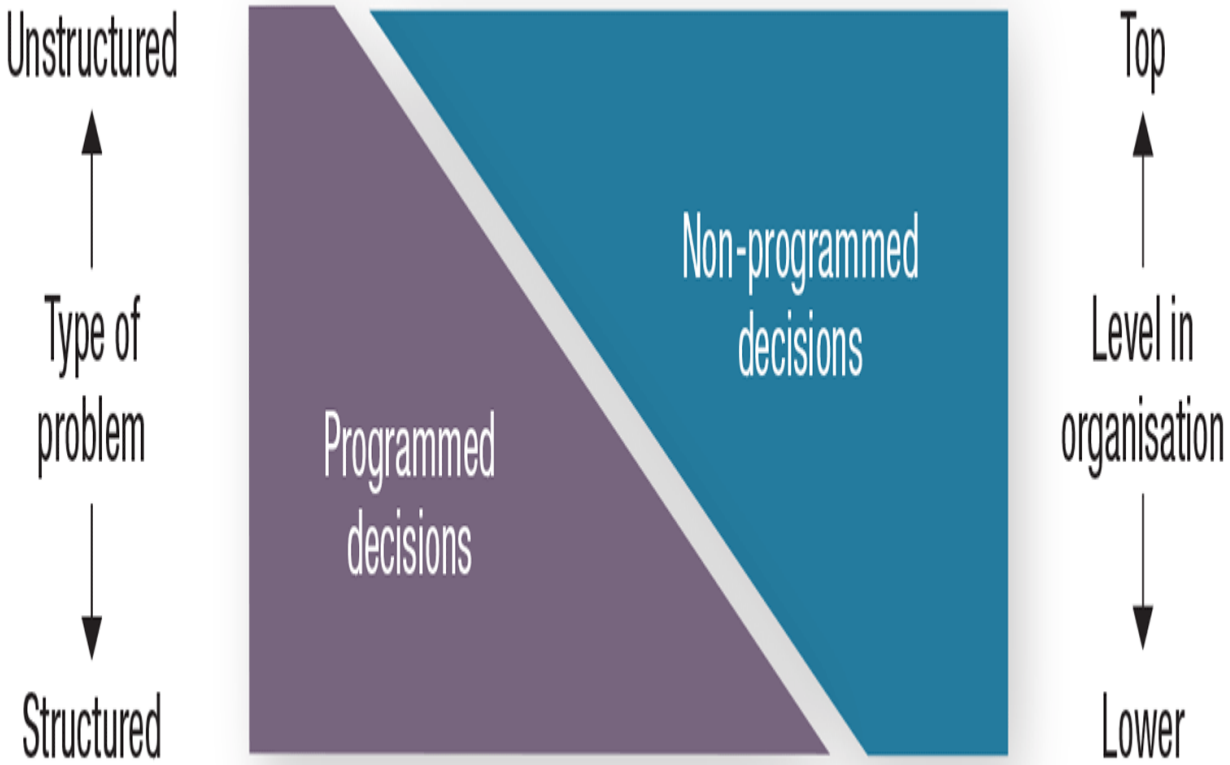
The creation of a new organisational strategy is a non-programmed decision. This decision is different from previous organisational decisions because the issue is new; a different set of environmental

factors exists and other conditions have changed. For example, Amazon.com's Jeff Bezos's strategy to 'get big fast' helped the company grow tremendously. But this strategy came at a cost – perennial financial losses. To turn a profit, Bezos made decisions regarding 'sorting orders, anticipating demand, more efficient shipping, foreign partnerships, and opening a marketplace allowing other sellers to sell their books at Amazon'. Those decisions have definitely paid off: in 2018, Amazon generated over US$10 billion in revenue and by 2020 generated record profits when the COVID-19 pandemic caused a massive increase in online shopping services.[23]

How are problems, types of decisions and organisational level integrated?

Figure 5.4 describes the relationship among types of problems, types of decisions and level in the organisation. Lower-level managers essentially confront familiar, repetitive and structured problems; therefore, they most typically rely on programmed decisions such as standard operating procedures. However, the problems confronting managers are likely to become less structured as they move up the organisational hierarchy. Why? Because lower-level managers handle the routine decisions themselves and pass upwards only those decisions that they find unique or difficult. Similarly, managers pass down routine decisions to their employees in order to spend their time on more problematic issues.

Figure 5.4 Types of problems, types of decisions and organisational level



Few managerial decisions in the real world are either fully programmed or fully non-programmed. Most decisions fall somewhere in between. Few programmed decisions are designed to eliminate individual judgment completely. At the other extreme, even the most unusual situation requiring a non-programmed decision can be helped by programmed routines for making a decision.

A final point on this topic is that organisational efficiency is facilitated by programmed decision making – a fact that may explain its wide popularity. Whenever possible, management decisions are likely to be

programmed. Programmed decisions minimise the need for managers to exercise discretion. This factor is important because discretion costs money. The more non-programmed decision making a manager is required to do, the greater the judgment needed. Because sound judgment is an uncommon quality, it costs more to acquire the services of managers who possess it. By creating policies, procedures and rules, organisations enable lower-level managers to handle programmed decisions, saving time and money. Top-level managers are free to concentrate on non-programmed decisions.

What decision-making conditions do managers face?

When making decisions, managers face three different conditions: certainty, risk and uncertainty. Let's look at each.

The ideal situation for making decisions is one of **certainty**, which is a situation where a manager can make accurate decisions because the outcome of every alternative is known. For example, when a finance manager decides where to invest excess organisational funds, they know exactly the interest rate being offered by each bank and the amount that will be earned on the funds. They are certain about the outcomes of each alternative. As you might expect, most managerial decisions aren't like this.

certainty

A situation in which a decision maker can make accurate decisions because all outcomes are known

Far more common is a situation of **risk**, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information that lets them assign probabilities to different alternatives.

risk

A situation in which a decision maker is able to estimate the likelihood of certain outcomes

What happens if you face a decision where you're not certain about the outcomes and can't even make reasonable probability estimates? We call this condition **uncertainty**. Managers do face decision-making situations of uncertainty. Under these conditions, the choice of alternative is influenced by both the limited amount of available information and the psychological orientation of the decision maker.

uncertainty

A situation in which a decision maker has neither certainty nor reasonable probability estimates available

Rethinking management in a global crisis: Making decisions when uncertainty is the *only* certainty

As the COVID-19 pandemic unfolded, governments around the world faced some of the most difficult decision-making circumstances they had ever encountered. The decision problems (e.g. How do we stop or slow the spread of the disease in our community? How do we maintain essential services and access to essential resources such as food?) had high stakes and life-or-death consequences for millions of people. The decision criteria were unclear and fast-changing: initially, the priority was limiting the spread of infection, but as infection rates dropped, managing the tradeoffs and impacts of restrictions on economic activity, business survival, morale, and physical and psychological health became increasingly important. The range of alternatives available changed quickly, even daily. Information about options and their potential consequences was often incomplete and based on assumptions that may or may not prove correct. For instance, when Australian government officials were attempting to predict how fast COVID-19 might spread in Australia they knew the rates at which it was reported to be spreading in other countries, but couldn't know how accurate those figures were, why

the rates of infection differed so much between countries, and which scenarios might play out in Australia.

Likewise, the implementing of decisions was complicated by contextual factors. For instance, when the Australian states and territories shut their borders, this was relatively straightforward to enforce in Tasmania. As people can only enter the state by air or boat, enforcement only required that five airports and four sea ports be monitored.[24] In Western Australia, however, it was a much larger challenge, requiring the management of an eastern border of nearly 2,000 km and almost 13,000 km of coastline.[25]

Evaluating decision outcomes also proved incredibly challenging, because in many cases the best outcome was that 'nothing happened'. But this made it hard to know whether they *were* decision outcomes, or to know which decisions caused them. For instance, by late March 2020 when the Australian government decided to implement major restrictions on business operations and social distancing, it was predicted that the infection rate in Australia could jump from 1,500 to 10,000 cases in just 10 days.[26] Two months later, however, Australia had only 7,173 reported cases and 103 fatalities.[27] Was the lower-than-anticipated infection rate due to government decisions to impose restrictions? To the choices of individual Australians to heed them? Or to inaccurate modelling of likely infection rates?

How do groups make decisions?

Learning outcome 5.4 Discuss group decision making.

> Work teams are common at Amazon. The founder, Jeff Bezos, set team sizes using a **'two pizza' philosophy** – that is, a team should be small enough that it can be fed with two pizzas.[28]

Do managers make a lot of decisions in groups? You bet they do! Many decisions in organisations, especially important decisions that have far-reaching effects on organisational activities and people, are typically made in groups. It's a rare organisation that doesn't at some time use committees, task forces, review panels, work teams or similar groups as vehicles for making decisions. Why? In many cases, these groups represent the people who will be most affected by the decisions being made. Because of their expertise, these people are often best qualified to make decisions that affect them.

Studies tell us that managers spend a significant portion of their time in meetings. Undoubtedly, a large portion of that time is involved with defining problems, arriving at solutions to those problems and determining the means for implementing the solutions. It's possible, in fact, for groups to be assigned any of the eight steps in the decision-making process.

What are the advantages and disadvantages of group decision making?

Decisions can be made by individuals or by groups – each approach has its own set of strengths, and neither is ideal for all situations.

Advantages of group decisions over individual decisions

- *More complete information.*[29]
- *Diversity of experiences and perspectives brought to the decision process*.[30]
- *More alternatives generated* due to greater quantity and diversity of information, especially when group members represent different specialties.
- *Increased acceptance of a solution* by having people who will be affected by a certain solution and who will help to implement it participate in the decision.[31]
- *Increased legitimacy* because the group decision-making process is consistent with democratic ideals, and decisions made by groups may be perceived as more legitimate than those made by a single person, which can appear autocratic and arbitrary.

Disadvantages of group decision making

- It is *time-consuming* to assemble the group and get decisions made.
- *Minority domination* can unduly influence the final decision because group members are never perfectly equal – they differ in rank, experience, knowledge about the problem, influence on other members, verbal skills, assertiveness, etc.[32]
- *Ambiguous responsibility*. Group members share responsibility, but who is actually responsible for the final outcome?[33] Individual decision – it's clear. Group decision – it's not.
- *Pressures to conform*. Have you ever been in a group where your views didn't match the group's consensus views and you remained silent? Maybe others felt the same way and also remained silent. This is what Irving Janis called **groupthink**, a form of conformity in which group members withhold deviant, minority or unpopular views in order to give the *appearance of agreement.*[34]

> ***groupthink***
>
> When a group exerts extensive pressure on an individual to withhold their different views in order to appear to be in agreement

Groupthink applies to a situation in which a group's ability to appraise alternatives objectively and arrive at a quality decision is jeopardised. When groupthink occurs, the group stresses conformity and an illusion of unanimity is pervasive. Group members rationalise any resistance to the assumptions they have made, and those members who have doubts or hold differing points of view withhold them in order to avoid deviating from what appears to be group consensus. If someone doesn't speak, it's assumed that they are in full accord with the rest of the group.

Groups may also deter individuals from critically appraising unusual, minority or unpopular views by applying direct pressure on any member who expresses doubts about any of the group's shared views or who questions the validity of arguments favoured by the majority. As a result, when groupthink occurs it can cause an individual's mental efficiency, reality testing and moral judgment to deteriorate. It also undermines critical thinking in the group and eventually harms the quality of the final decision.

Several research studies have found that groupthink really hinders decision making, finding that groupthink symptoms were associated with poorer-quality decision outcomes. However, groupthink can be minimised if the group is cohesive, fosters open discussion and has an impartial leader who seeks input from all members.[35]

Managing for diversity and inclusion: The value of diversity in decision making

Making good decisions is tough! Managers continuously make decisions: for example, developing new products, establishing weekly or monthly goals, implementing an advertising campaign, reassigning an employee to a different work group, resolving a customer's complaint or purchasing new tablets for sales reps. One important suggestion for making better decisions is to tap into the diversity of the work group.[36] Drawing on diverse employees can prove valuable to a manager's decision making. Diverse employees can provide fresh perspectives on issues, offer differing interpretations on how a problem is defined and may be more open to trying new ideas. Diverse employees can be more creative in generating alternatives and more flexible in resolving issues. Getting input from diverse sources also increases the likelihood that creative and unique solutions will be generated. Finally, studies show that group diversity actually improves decision processes. For example, research has found that white participants participating in racially diverse decision groups raised more facts, made fewer factual errors and were more amenable to discussion of race-related issues when they were

members of a diverse group than when their group was racially homogeneous.

Even though diversity in decision making can be valuable, there are drawbacks. The lack of a common perspective usually means that more time is spent discussing the issues. Communication may be a problem, particularly if language barriers are present. In addition, seeking out diverse opinions can make the decision-making process more complex, confusing and ambiguous. And with multiple perspectives on the decision, it may be difficult to reach a single agreement or to agree on specific actions. Although these drawbacks are valid concerns, the value of diversity in decision making outweighs the potential disadvantages.

When are groups most effective?

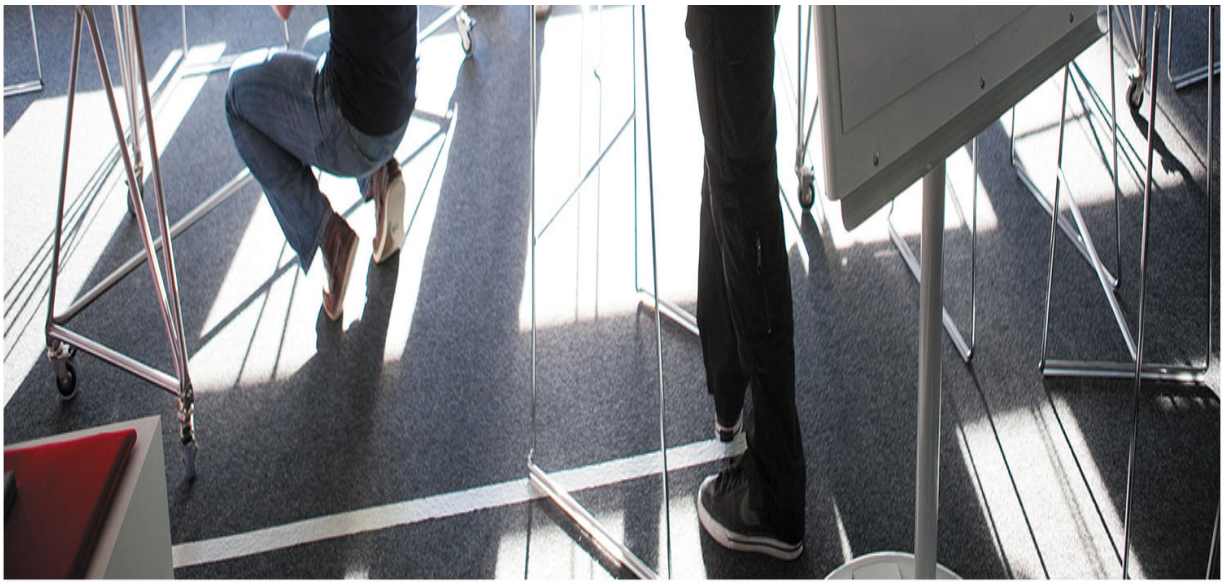
Whether groups are more effective than individuals at making decisions depends on the criteria used for defining effectiveness, such as accuracy, speed, creativity and acceptance. Group decisions tend to be more accurate. On average, groups tend to make better decisions than individuals, although groupthink may occur.[37] However, if decision effectiveness is defined in terms of speed, individuals are superior. If creativity is important, groups tend to be more effective than individuals. And if effectiveness means the degree of acceptance the final solution achieves, the nod again goes to the group.

The effectiveness of group decision making is also influenced by the size of the group. The larger the group, the greater the opportunity for heterogeneous representation. On the other hand, a larger group requires more coordination and more time to allow all members to contribute. This means that groups probably shouldn't be too large: a minimum of five to a maximum of about 15 members is best. Groups of five to seven individuals appear to be the most effective. (Remember Amazon's 'two-pizza' rule!) Because five and seven are odd numbers, decision deadlocks are avoided. You can't consider effectiveness without also assessing efficiency. Groups almost always stack up as a poor second in efficiency to the individual decision maker. With few exceptions, group decision making consumes more work hours than does individual decision making.

> Bottom line on groups or individuals: **Do increases in effectiveness offset losses in efficiency?**

How can you improve group decision making?

Make group decisions more creative by brainstorming, employing the nominal group technique, and/or having electronic meetings.



Brainstorming is an important way of improving group decision making at SAP AG, a provider of enterprise software. Employees working at SAP headquarters in Ildorf, Germany, use whiteboards during a brainstorming session to develop product and service innovations that target the growing online software market.

Krisztian Bocsi/Bloomberg/Getty Images

What is brainstorming?

Brainstorming is a relatively simple idea-generating process that specifically encourages any and all alternatives while withholding criticism of those alternatives.[38] In a typical brainstorming session, a half-dozen to a dozen people sit around a table or convene online. The group leader states the problem in a clear manner that is understood by all participants. Members then shout out, offer up or fire off as many alternatives as they can in a given time. No criticism is allowed, and all the alternatives are recorded for later discussion and analysis.[39]

brainstorming

An idea-generating process that encourages alternatives while withholding criticism

How does the nominal group technique work?

The **nominal group technique** helps groups arrive at a preferred solution by restricting discussion during the decision-making process.[40] Group members must be present, as in a traditional committee meeting, but they are required to operate independently. They secretly write a list of general problem areas or potential solutions to a problem. The chief advantage of this technique is that it permits the group to meet formally but doesn't restrict independent thinking or lead to groupthink, as can often happen in a traditional interacting group.[41]

nominal group technique

A decision-making technique in which group members are physically present but operate independently

How can electronic meetings enhance group decision making?

Another approach to group decision making blends the nominal group technique with information technology and is called the **electronic meeting**.

> ***electronic meeting***
>
> A type of nominal group technique in which participants are linked by computer and use software platforms to facilitate, record and review discussion

Once the technology is in place, the concept is simple. Electronic meetings are conducted using software platforms that allow participants to log into the meeting via computer.[42] This allows people to attend the meeting in person or virtually via the internet. Participants are presented with issues or topics for discussion and type their responses on their computers. Individual comments, as well as aggregate votes, are then displayed to the whole group.

The main advantages of electronic meetings are anonymity, honesty, productivity and speed.[43] Participants can anonymously type any

message they want and it will flash on the screen for all to see with a keystroke. It allows people to be brutally honest with no penalty. It's fast – chitchat is eliminated, discussions don't digress, and many participants can 'talk' at once without interrupting the others. It also enhances productivity by automatically generating records of discussions, enabling more structured meetings and increasing group member participation.

Electronic meetings *are* significantly faster and much cheaper than traditional face-to-face meetings.[44] However, as with all other forms of group activities, electronic meetings have some drawbacks. Those who type quickly can outshine those who may be verbally eloquent but lousy typists; those with the best ideas don't get credit for them; linear conversations break down; and the process lacks communication.[45] However, group decision making is likely to include extensive usage of electronic meetings.[46]

Videoconferencing and webconferencing provide other ways for groups to meet electronically, with many of the same benefits of electronic meetings as well as some additional advantages. Videoconferencing and webconferencing technologies allow people to have face-to-face meetings even when they are thousands of kilometres apart. This means that when groups meet, members can see and hear each other so their communication is enhanced because it includes all of the verbal and non-verbal cues that are normally present in a face-to-face meeting. They can also share their computer screens with others in the meeting, making it easy to share information and get input and feedback. Like electronic meetings,

videoconferences and webconferences are quick, easy and cheap to use: all you need in order to be able to participate is a webcam and access to conferencing software program such as Zoom or Skype, and a reliable internet connection. Most webconferencing programs also record who attended, offer chat facilities and provide options to record the conference, so it's easy to create records of the group's deliberations and what people contributed, and to share those records with people who couldn't attend the conference.

As we've discussed in the chapter on managing organisational and interpersonal communication, the use of webconferencing skyrocketed during the COVID-19 pandemic because webconferences provided cheap and safe ways for people to meet together without needing to leave their homes. This change generated new insights into the ways in which webconferencing could help groups engage in efficent and effective decision making, but also generated a new understanding of the downsides and limits of these technologies when they are overused and cause problems such as 'Zoom fatigue'.[47]

What contemporary decision-making issues do managers face?

Learning outcome 5.5 Discuss contemporary issues in managerial decision making.

Bad decisions can cost millions.

Today's business world revolves around making decisions, often risky ones, usually with incomplete or inadequate information, and under intense time pressure. Most managers make one decision after another; and, as if that weren't challenging enough, more is at stake than ever before since bad decisions can cost millions. We're going to look at three important issues – national culture, creativity and design thinking, and big data – that managers face in today's fast-moving and global world.

How does national culture affect managers' decision making?

Research shows that, to some extent, decision-making practices differ from country to country.[48] The way decisions are made – whether by group, by team members, participatively or autocratically by an individual manager – and the degree of risk a decision maker is willing to take are just two examples of decision variables that reflect a country's cultural environment. For example, in India, power distance and uncertainty avoidance (see the chapter on the external organisational environment) are high. There, only very senior-level managers make decisions, and they're likely to make safe ones. In contrast, in Sweden, power distance and uncertainty avoidance are low. Swedish managers aren't afraid to make risky decisions. Senior managers in Sweden also push decisions down to lower levels. They encourage lower-level managers and employees to take part in decisions that affect them.[49] In countries such as Egypt, where time pressures are low, managers make decisions at a slower and more deliberate pace than is the usual case in Australia. And in Italy, where history and traditions are valued, managers tend to rely on tried and proven alternatives to resolve problems.

Decision making in Japan is much more group oriented than in countries such as Australia and the United States.[50] The Japanese

value conformity and cooperation. Before making decisions, Japanese CEOs collect a large amount of information, which is then used in consensus-forming group decisions called ***ringisei***. Because employees in Japanese organisations have high job security, managerial decisions take a long-term perspective rather than focusing on short-term profits, as is often the practice in Australia.

ringisei
: Japanese consensus-forming group decisions

Senior managers in France and Germany also adapt their decision styles to their countries' cultures. In France, for example, autocratic decision making is widely practised, and managers avoid risks. Managerial styles in Germany reflect the German culture's concern for structure and order. Consequently, German organisations generally operate under extensive rules and regulations. Managers have well-defined responsibilities and accept that decisions must go through channels.

As managers deal with employees from diverse cultures, they need to recognise common and accepted behaviour when asking them to make decisions. Some individuals may not be as comfortable as others with being closely involved in decision making, or they may not be willing to experiment with something radically different. Managers

who accommodate the diversity in decision-making philosophies and practices can expect a high payoff if they capture the perspectives and strengths that a diverse workforce offers.

> Learn to **unleash YOUR** creativity.

Why are creativity and design thinking important in decision making?

A decision maker needs **creativity**: the ability to produce novel and useful ideas. These ideas are different from what's been done before but are also appropriate to the problem or opportunity presented. Why is creativity important to decision making? It allows the decision maker to appraise and understand the problem more fully, including 'seeing' problems others can't see. However, creativity's most obvious value is in helping the decision maker identify all viable alternatives.

> ***creativity***
> The ability to produce novel and useful ideas

Most people have creative potential that they can use when confronted with a decision-making problem. But to unleash that potential, they have to get out of the psychological ruts most of us get into and learn how to think about a problem in different ways. We

discuss a range of techniques for stimulating creativity and creative thinking in the chapter on managing change and innovation.

> Apple – a great example of how **design thinking benefits** an organisation.

Understanding design thinking

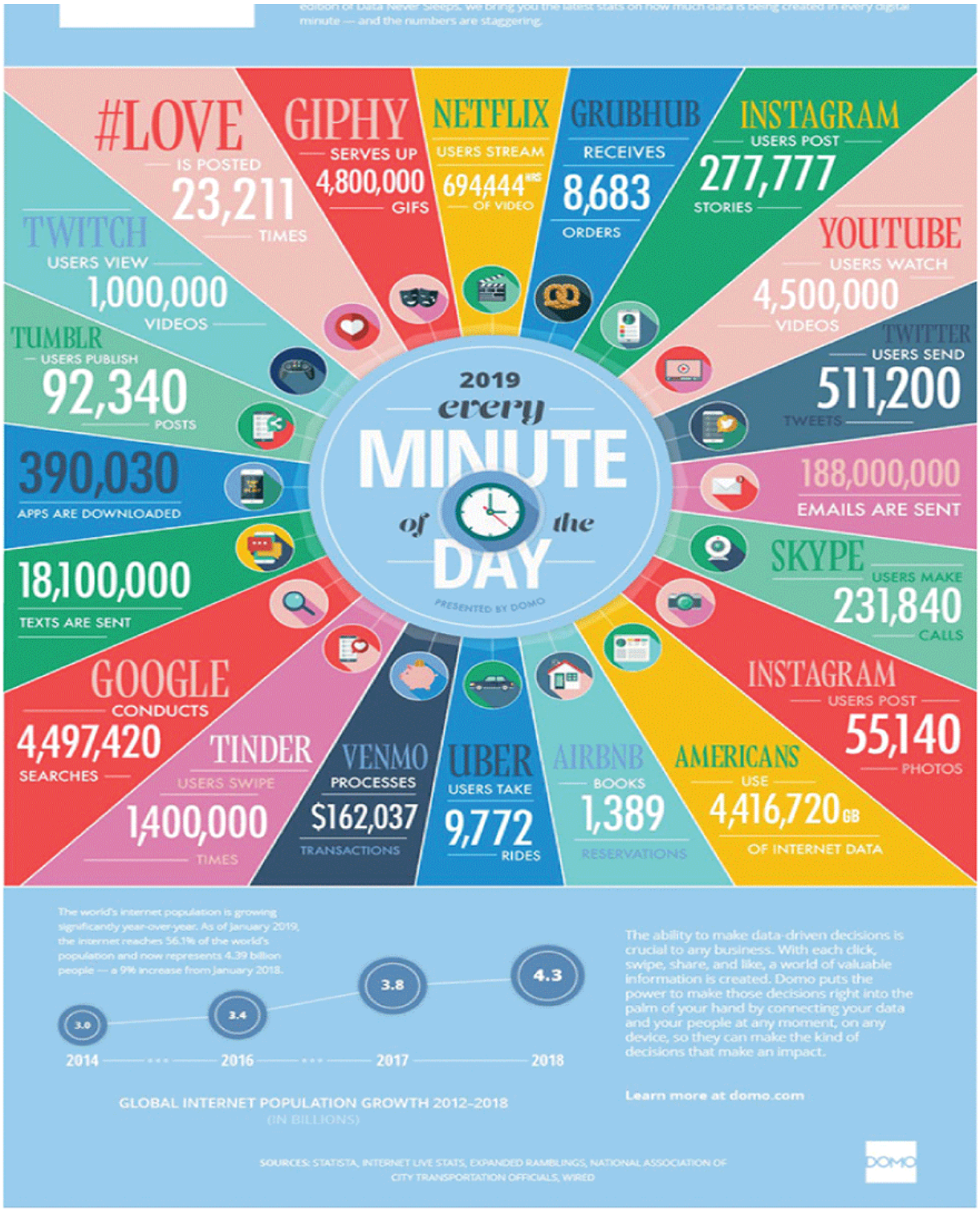
The way managers approach decision making – using a rational and analytical mindset in identifying problems, coming up with alternatives, evaluating alternatives and choosing one of those alternatives – may not be the best, and certainly not the only, choice in today's environment. That's where design thinking comes in. **Design thinking** has been described as 'approaching management problems as designers approach design problems'.[51] More organisations are beginning to recognise how design thinking can benefit them.[52] For example, Apple has long been celebrated for its design thinking. Jonathan 'Jony' Ive, who was behind some of Apple's most successful products, including the iPod and iPhone, said of Apple's design approach: 'We try to develop products that seem somehow inevitable. That leave you with the sense that that's the only possible solution that makes sense.'[53]

design thinking

Approaching management problems in the same way that designers approach design

problems

While many managers don't deal specifically with product or process design decisions, they still make decisions about work issues that arise, and design thinking can help them be better decision makers. What can the design thinking approach teach managers about making better decisions? Well, it begins with the first step of identifying problems. Design thinking says that managers should look at problem identification collaboratively and integratively with the goal of gaining a deep understanding of the situation. They should look not only at the rational aspects, but also at the emotional elements. Then, invariably, design thinking would influence how managers identify and evaluate alternatives. A traditional manager (educated in a business school, of course) would take the options that have been presented and analyse them based on deductive reasoning and then select the one with the highest net present value. However, using design thinking, a manager would say, 'What is something completely new that would be lovely if it existed but doesn't now?'[54] Design thinking means opening up your perspective and gaining insights by using observation and inquiry skills, and not relying simply on rational analysis. We're not saying that rational analysis isn't needed; we are saying that more is needed in making effective decisions, especially in today's world.



Data Never Sleeps 7.0. DOMO, Inc.

> Big data is **changing the way** managers make decisions.

Big data understood

Each day, human beings generate 2.5 quintillion bytes of data about where they are, what they are doing and who they are with.[55] **Big data** is the vast amount of quantifiable information that can be analysed by highly sophisticated data processing. Not surprisingly, businesses and governments are increasingly focused on big data – collecting, analysing and generating insights from a wide range of data sources so as to improve business performance. Through mobile phone data, GPS locaters, call centre transcripts, social media posts, and uploaded photos and videos, organisations can develop detailed profiles about people's behaviour, attitudes and preferences. Making the most of it, though, depends on how organisations use data to improve their decision making, businesses and relationships with customers.

It's not just businesses that are exploiting big data. During the COVID-19 pandemic, big data was used in a variety of ways to track how the virus was spreading and the impact of social restrictions. This included using GPS data to monitor compliance (and non-compliance) with social distancing rules, pooling data from hospitals around the world to determine how COVID patients were responding to different treatments, and collecting data from digital thermometers so that average temperatures in the population could be used as an indicator of infection levels in particular locations.[56]

big data

The vast amount of quantifiable information that can be analysed by highly sophisticated data processing

What does big data have to do with decision making? A lot, as you can imagine. With this type of data at hand, decision makers have very powerful tools to help them make decisions. Perhaps the most common use of big data is to generate new insights into what the organisation's customers want, do and like. Woolworths uses big data to better match its customers and products.[57] By combining accident data from its insurance business with transaction data from its shopper loyalty program, Woolworths was able to determine the insurance risks of certain types of shoppers. The company found, for example, that customers who consumed a lot of red meat and milk were much better 'risks' for car insurance than people who ate lots of pasta, drank spirits and refilled their petrol tank at night, leading Woolworths to tailor its insurance products to the risk profile of customers.

Big data can also be used to improve organisational decision making about how to recruit and who to hire. For example, one company analysed data from almost 100,000 employees and learnt the following:

- Casual workers who complete online application forms using Firefox or Chrome as their internet browser perform better and have lower turnover than people who use Internet Explorer.
- People with a criminal record are better call centre employees than people without one.

However, experts caution that collecting and analysing data for data's sake is wasted effort. Managers need to really examine and evaluate how big data might contribute to their decision making before jumping in with both feet. For most organisations, whether big data enhances decisions and business performance will depend on how they incorporate it into their decision-making processes, understanding *why* the data picture looks as it does and what is really important for the decision being made. As one expert warns: 'Collecting consumer data, making sense of it and then implementing the findings into business strategy are three different things!' To determine how best to use big data, organisations need to decide:

- what questions, problems and hypotheses they need to address to create more value and improve their operations
- the data needed to answer those questions, and where and how it can be acquired
- how data will be analysed, and how complex the analysis should be
- how analytical insights will be developed into strategic recommendations for action and how recommendations will be prioritised

- whether the investment required to acquire, analyse and develop recommendations from big data provides enough value to be worth the cost and effort.

Review

Chapter 5 summary

5.1 Describe the decision-making process.

The decision-making process consists of eight steps: (1) identify a problem; (2) identify decision criteria; (3) weight the criteria; (4) develop alternatives; (5) analyse alternatives; (6) select alternative; (7) implement alternative; and (8) evaluate decision effectiveness. As managers make decisions, they may use heuristics to simplify the process, which can lead to errors and biases in their decision making. The 12 common decision-making errors and biases include overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias and hindsight.

5.2 Explain the three approaches managers can use to make decisions.

The first approach is the rational model. The assumptions of rationality are as follows: the problem is clear and unambiguous; a single, well-defined goal is to be achieved; all alternatives and consequences are known; and the final choice will maximise the payoff. The second approach, bounded rationality, says that managers make rational decisions but are bounded (limited) by their ability to process information. In this approach, managers satisfice, which is when decision makers accept solutions that are good enough. Finally, intuitive decision making is making decisions on the basis of experience, feelings and accumulated judgment.

5.3 Describe the types of decisions and decision-making conditions managers face.

Programmed decisions are repetitive decisions that can be handled by a routine approach. They are used when the problem being resolved is straightforward, familiar and easily defined (structured). Non-programmed decisions are unique decisions that require a custom-made solution. They are used when the problems are new or unusual (unstructured) and for which information is ambiguous or incomplete. Certainty involves a situation in which a manager can make accurate decisions because all outcomes are known. With risk, a manager can estimate the likelihood of certain outcomes in a situation. Uncertainty is a situation in which a manager isn't certain about the outcomes and can't even make reasonable probability estimates.

5.4 Discuss group decision making.

Groups offer certain advantages when making decisions: more complete information, more alternatives, increased acceptance of a solution and greater legitimacy. On the other hand, groups are time-consuming, can be dominated by a minority, create pressures to conform and cloud responsibility. Three ways of improving group decision making are brainstorming (utilising an idea-generating process that specifically encourages any and all alternatives while withholding any criticism of those alternatives), the nominal group technique (a technique that restricts discussion during the decision-making process) and electronic meetings (the most recent approach to group decision making, which blends the nominal group technique with sophisticated computer technology).

5.5 Discuss contemporary issues in managerial decision making.

As managers deal with employees from diverse cultures, they need to recognise common and accepted behaviour when asking them to make decisions. Some individuals may not be as comfortable as others with being closely involved in decision making, or they may not be willing to experiment with something radically different. Also, managers need to be creative in their decision making because creativity allows them to appraise and understand the problem more fully, including ‘seeing’ problems that others can’t see. Design thinking also influences the way that managers approach decision making, especially in terms of identifying problems and how they identify and evaluate alternatives. Finally, big data is changing what and how decisions are made, but managers need to evaluate how big data might contribute to their decision making.

Discussion questions

5.1 Why is decision making often described as the essence of a manager's job?
5.2 Describe the eight steps in the decision-making process.
5.3 We all bring biases to the decisions we make. What would be the drawbacks of having biases? Could there be any advantages to having biases? Explain. What are the implications for managerial decision making?
5.4 Powerful decision tools and big data are often celebrated for their value in enhancing decision-making processes. Are there any ways in which they could undermine these processes?
5.5 Describe a decision you've made that closely aligns with the assumptions of perfect rationality. Compare this decision with the process you used to select your university. Did you depart from the rational model in your university decisions? Explain.
5.6 Explain how a manager might deal with making decisions under conditions of uncertainty.
5.7 Why do you think organisations have increased the use of groups for making decisions? When would you recommend using groups to make decisions?
5.8 How do policies and procedures enhance decision making in organisations?

5.9 What is big data? How can managers effectively use big data to improve their decision making? Should managers be cautious when using big data?

5.10 Why does a decision maker need to be creative? In which steps of the decision process is creativity likely to be the most important?

Management skills spotlight: Being a creative decision maker

Many decisions that managers make are routine, so they can fall back on experience and ‘what’s worked in the past’. But other decisions – especially those made by upper-level managers – are unique and haven’t been confronted before. The uniqueness and variety of problems that managers face demand creativity – the ability to produce novel and useful ideas. If managers are to successfully progress upward in an organisation, they’ll find an increasing need to develop creative decisions. Creativity is partly a frame of mind. You need to expand your mind’s capabilities – that is, open yourself up to new ideas. Every individual has the ability to improve their creativity, but many people simply don’t try to develop that ability.

Experiential exercise

Procedures, rules and policies help managers and employees make decisions more efficiently and effectively. One way they do this is by documenting decisions that have already been made within the organisation about how certain situations should be handled. When managers and employees have clear rules, policies and procedures to follow, they don't need to spend time figuring out for themselves what they should do or how it should be done. They just need to implement the course of action that the policies and rules specify, using the procedures that have been specified.

The usefulness of an organisation's rules, policies and procedures depends largely on how clearly they are written. In this exercise, you're going to try this for yourself!

1. Think of an activity you do with other people in your life. It could be something you do with work colleagues, with other students, with people you live with, or with friends.
2. Write a procedure, a rule and a policy for performing the activity. Refer back in the chapter to check how these differ from each other. **Hint:** Pretend you are writing these for another person who has never performed this activity before, and will only know from your document how to do it successfully.

3. Now give your procedure, policy and rule to someone else. Can they clearly understand what they are supposed to do and how they are supposed to do it? Are there any parts they don't understand?
4. Reflect on this experience using the following reflective questions:
    a. *Describe your experience.* What occurred when you tried to write your procedure, policy and rule? What did you find difficult? Which parts of the policy, procedure or rule did the other person have trouble understanding?
    b. *Interpret your experience.* Why do you think you encountered the challenges that you did? Why did the other person have trouble understanding your policy, procedure or rule?
    c. *Evaluate your experience.* What did you learn from this experience about writing clear policies, procedures and rules to guide other people's decision making?
    d. *Apply your learning.* How could you apply what you learnt to write better rules, procedures and policies in the future? What would you do differently next time you do that?

Case application: Going greener

When Dean and Gill Belle took over the Mansfield Regional Produce Store, they faced an important question: how could they upgrade the premises to make it more environmentally sustainable while still maintaining its historic charm? The answer turned out to be: with a lot of careful decisions![58]

The Mansfield Regional Produce Store is a busy café located in the main street of Mansfield, Victoria. It's easily identifiable by the three bright yellow umbrellas that shade the café tables out the front. The building was originally built in 1895 to be an auction room, and its high cathedral ceilings and exposed rafters are part of its historical and rustic charm. But when Dean and Gill took over the store in 2007, they realised it also needed a serious upgrade! The concrete floor, high ceilings and lack of ceiling insulation meant the building was difficult to heat in winter and uncomfortably hot in summer. The kitchen had only one stove and a bathroom-style exhaust fan, which soon proved inadequate when the café became popular very quickly. Using 'a bit of common sense', Google, and restaurant and catering industry magazines, Dean and Gill began to search for some solutions.

> Better decisions = better business.

The first priority was replacing the kitchen exhaust fans to improve ventilation for the kitchen and make the premises compliant with regulations. But the solution to one problem created another. In winter, the fans sucked cold air through gaps in the café's windows, creating a cold draft for customers. Using an infrared thermometer gun, Dean took temperature measurements to map the cold airflow, then stopped the draughts by using draught stoppers and taping over the window frames.

When the roof cladding needed replacing, Dean and Gill took the opportunity to also insulate the ceiling to reduce energy wastage and heat loss. They decided to install a thin skin of insulation because, as they recalled, 'We had limited time available and a limited budget, and there were many factors involved in the decision . . . but we didn't have the information we needed to make a properly informed choice.'

Other big decisions taught them additional lessons about the challenges of making fully informed choices. The café hosts monthly Bracket and Jam live music evenings. To create the right ambience, Dean and Gill decided to replace the building's incandescent light globes with compact fluorescents that could be dimmed. At the time, dimmable fluorescent lights were new on the market and expensive to purchase, so buying the 10 globes that would be needed to light the space required was a significant investment. Dean and Gill investigated different options online, but found that 'it can be a challenge to calculate capital outlay versus the return, when you have to consider

cash flow. That can be a hard calculation to make, without all the information at your fingertips.' Especially when it turned out that the globes didn't last anything like as long as the 2,000 hours that were estimated.

Ironically, cooling also became an issue as the refrigeration unit in the cool room was old and constantly being repaired. Luckily, 'a new mechanic, with more training, helped us understand that upgrading to a new, more efficient model would be more cost effective than continually patching the old unit'. When the pair also needed to replace the café's hot water system, they asked others in the industry for advice and made careful calculations of their hot water needs, the available space and the cost of different systems. As they recalled, 'It was frustrating – trying to make an informed decision. In the end we just had to make a call!' Fortunately, their decisions not only made the café more energy efficient, but also helped it to expand and thrive.

Discussion questions

5.11 List some of the decision criteria you think Dean and Gill used in their decision making. Are there any other criteria they could have used to help them make better decisions?

5.12 How do you think they weighted the criteria? Which ones were they likely to consider of more importance? Which ones might they have considered less important?

5.13 Would Dean and Gill's decision-making conditions have been characterised by certainty, risk or uncertainty? Explain.

5.14 What do Dean and Gill's experiences indicate about the challenges of trying to engage in rational decision making?

Running case: Holiday home helpers: Developing a decision-making style

After her first week at HHH, Mia met again with Skylar.

‘I’ve gotten to know you a bit more,’ Skylar said, ‘but I’m curious: how would you describe your decision-making style?’

‘Well’, said Mia. ‘I used to be quite intuitive in my decision making and I relied a lot on how things felt. If something felt like the right thing to do, I generally did it. And if it felt like the wrong thing to do, I generally didn’t. Which was fine when I was running everything myself. If it worked out, great, and if it didn’t, I’d just do something else next time. But I realised that this approach was stopping me from growing and learning. If I decided that something didn’t feel like the right thing to do, I often didn’t bother to examine why. And I could generally think of reasons to go with the course of action I’d decided on, but I wasn’t always that balanced in considering other alternatives. It also meant I missed a few opportunities because they were outside my comfort zone. Looking back, I realise I would have pursued them if I’d taken more time to evaluate their merits properly.’

‘So, what changed?’ Skylar asked.

‘I started employing people,’ said Mia. ‘That meant I had to start being more explicit about my decision processes. This was partly so that I could communicate to my staff what decisions I’d taken; partly because I needed to delegate decisions to other people, and so I needed to explain to them how I wanted them to handle that; and partly because I didn’t have time to keep explaining myself over and over. I quickly realised that if I took the time to document these things in my company policies and procedures, I wouldn’t have to keep it all in my head. If someone asked me how we did a particular thing, or why we were doing things a particular way, I wouldn’t have to try to remember what I had been thinking when I made that decision: it was all written down. Nor did I have to spend time explaining it all to them in person: I could just give them the documents to read.’

‘So, does that mean you prefer to communicate with your staff in writing?’ asked Skylar.

‘If it’s a situation where a decision has been taken and I just need them to know what we are doing and how to do it, then yes, I do,’ said Mia. ‘Because then they have that email or that document to refer back to any time they need to. But if it’s a situation where I’m still working out if I even need to make a decision about this yet, or what I need to consider and what options I have, then I prefer to talk it through with my staff. Because invariably, someone will come up with a question or a point I haven’t thought of yet, so talking it through together

helps me enhance the decision-making process as well as the outcome. But my personal preference is always to have one person responsible for making the final call. It doesn't have to be me, but it does need to be clear who makes the final decision on something.'

'Why is that?' asked Skylar.

'Because that way, I know who to go back to. If you have a decision taken by a group, then it's really hard to re-trace the decision process. So, I do it the other way: I delegate responsibility to one person, and when they send me their recommendation about what they have decided should be done, they are also responsible for explaining who they consulted, what evidence and perspectives they considered, and how they determined the course of action they think should be taken. That way the decision process is recorded, and so is the outcome. Which means, among other things, that if the same decision has to be taken again, I don't have to go back to the people involved last time and ask them to remember what occurred. I can just review the documentation and decide whether to stick with that decision and/or that decision process, or do something new.'

'That's a really interesting approach,' said Skylar. 'How did you come up with it?'

'It was actually created by one of my former employees, Linda. She is Japanese and also quite introverted, so she was very uncomfortable speaking up in group settings. I thought

that meant she had nothing to say. But it turned out her silence usually meant she was actually busy thinking through what we were discussing and coming up with new ideas. She just didn't like to share them off the cuff. She liked to go away, organise her thoughts, and then send me a carefully drafted explanation of what she thought we should do and why. Her emails were so valuable for sharing ideas and as reference materials that I've taken that approach ever since!'

Discussion questions

5.15 Review the common decision-making errors detailed in **Figure 5.2**. Which of these have influenced Mia's decision making?

5.16 Consider Mia's approach of intuitive decision making. How has this been useful to her? What are its drawbacks?

5.17 How has Mia used policies and procedures to improve decision making in her company?

5.18 Consider Mia's approach to group decision making. Which advantages of group decisions does this approach offer? Which disadvantages of group decisions might result?

5.19 How have cultural influences affected Mia's approach to decision making?

Endnotes

1 Case based on D. Kane, 'Essendon CAS Verdict: Why Decision to Reverse AFL Tribunal's Bombers Decision Was Mystifying', *Sydney Morning Herald*, 15 January 2016; 'A Critique of the Essendon CAS Verdict (Part 1)', *The Roar*, 17 January 2016; Court of Arbitration for Sport, *CAS 2015/A/4059 World Anti-Doping Agency v. Thomas Bellchambers et al., Australian Football League, Australian Sports Anti-Doping Authority*, **www.tas-cas.org/fileadmin/user_upload/Arbitral_Award_WADA_ESSENDON.pdf**, accessed 26 June 2017; J. Niall, 'WADA Finds "Abnormally" High TB4 Levels in Essendon Players', *The Age*, 6 August 2015; and E. Brimer, 'CAS Panel Finds "Strands in the Cable" Sufficiently Strong to Overturn the AFL Anti-Doping Tribunal's Decision', *CommBar*, **www.commbarmatters.com.au**, 25 February 2016, accessed 26 June 2017.

2 See, for example, A. Nagurney, J. Dong and P. L. Mokhtarian, 'Multicriteria Network Equilibrium Modeling with Variable Weights for Decision-Making in the Information Age with Applications to the Telecommuting and Teleshopping', *Journal of Economic Dynamics and Control*, August 2002, pp. 1629–50.

3 J. Flinchbaugh, 'Surfacing Problems Daily: Advice for Building a Problem-Solving Culture', *Industry Week*, April 2011, p. 12; 'Business Analysis Training Helps Leaders Achieve an Enterprise-Wide Perspective', *Leader to Leader*, Fall 2010, pp. 63–5; D. Okes, 'Common Problems with Basic Problem Solving', *Quality*, September

2010, pp. 36–40; and J. Sawyer, 'Problem-Solving Success Tips', *Business and Economic Review*, April–June 2002, pp. 23–4.

4 See J. Figueira and B. Ray, 'Determining the Weights of Criteria in the ELECTRE Type of Methods with a Revised Simons Procedure', *European Journal of Operational Research*, 1 June 2002, pp. 317–26.

5 For example, see M. Elliott, 'Breakthrough Thinking', *IIE Solution*, October 2001, pp. 22–5; and B. Fazlollahi and R. Vahidov, 'A Method for Generation of Alternatives by Decision Support Systems', *Journal of Management Information Systems*, Fall 2001, pp. 229–50.

6 D. Miller, Q. Hope, R. Eisenstat, N. Foote and J. Galbraith, 'The Problem of Solutions: Balancing Clients and Capabilities', *Business Horizons*, March–April 2002, pp. 3–12.

7 E. Teach, 'Avoiding Decision Traps', *CFO*, June 2004, pp. 97–9; and D. Kahneman and A. Tversky, 'Judgment under Uncertainty: Heuristics and Biases', *Science*, vol. 185 (1974), pp. 1124–31.

8 Information in this section taken from K. Messer, 'Comparing Direct Mail vs. Email Carbon Footprints', *LinkedIn*, www.linkedin, 7 September 2014, accessed 19 March 2017.

9 Information for this section taken from S. P. Robbins, *Decide & Conquer* (Upper Saddle River, NJ: Financial Times/Prentice Hall, 2004).

10 T. A. Stewart, 'Did You Ever Have to Make up Your Mind?', *Harvard Business Review*, January 2006, p. 12; and E. Pooley, 'Editor's Desk', *Fortune*, 27 June 2005, p. 16.

11 J. G. March, 'Decision-Making Perspective: Decisions in Organizations and Theories of Choice', in A. H. Van de Ven and W. F.

Joyce (eds), *Perspectives on Organization Design and Behavior* (New York: Wiley-Interscience, 1981), pp. 232–3.

12 See A. Langley, 'In Search of Rationality: The Purposes behind the Use of Formal Analysis in Organizations', *Administrative Science Quarterly*, December 1989, pp. 598–631; and H. A. Simon, 'Rationality in Psychology and Economics', *Journal of Business*, October 1986, p. 209.

13 A Question of Ethics box based on 'CVS Pharmacy Makes Commitment to Create New Standards for Post-Production Alterations of Beauty Imagery', CVS Health press release, 15 January 2018, **https://cvshealth.com/newsroom/press-releases/cvs-pharmacy-makes-commitment-create-new-standards-post-production**, accessed 20 January 2020; 'CVS Pharmacy Unveils New Beauty Aisles Reflecting Significant Progress in Commitment to Transparency and New Standards for Beauty Imagery', CVS Health press release, 24 January 2019, **https://cvshealth.com/newsroom/press-releases/cvs-pharmacy-unveils-new-beauty-aisles-reflecting-significant-progress**, accessed 20 January 2020.

14 H. A. Simon, 'Rational Decision Making in Business Organizations', *The American Economic Review*, September 1979, pp. 493–513.

15 H. A. Simon, 'Rational Decision Making in Business Organizations', *The American Economic Review*, September 1979, pp. 493–513.

16 Classic Concepts in Today's Organisations box based on M. Ibrahim, 'Theory of Bounded Rationality', *Public Management*, June 2009, pp. 3–5; D. A. Wren, *The Evolution of Management Thought*,

4th edn (New York: John Wiley & Sons, Inc., 1994), p. 291; and H. A. Simon, *Administrative Behavior* (New York: Macmillan Company, 1945).

17 See, for example, G. McNamara, H. Moon and P. Bromiley, 'Banking on Commitment: Intended and Unintended Consequences of an Organization's Attempt to Attenuate Escalation of Commitment', *Academy of Management Journal*, April 2002, pp. 443–52; V. S. Rao and A. Monk, 'The Effects of Individual Differences and Anonymity on Commitment to Decisions', *Journal of Social Psychology*, August 1999, pp. 496–515; C. F. Camerer and R. A. Weber, 'The Econometrics and Behavioral Economics of Escalation of Commitment: A Re-examination of Staw's Theory', *Journal of Economic Behavior and Organization*, May 1999, pp. 59–82; D. R. Bobocel and J. P. Meyer, 'Escalating Commitment to a Failing Course of Action: Separating the Roles of Choice and Justification', *Journal of Applied Psychology*, June 1994, pp. 360–3; and B. M. Staw, 'The Escalation of Commitment to a Course of Action', *Academy of Management Review*, October 1981, pp. 577–87.

18 C. C. Miller and R. D. Ireland, 'Intuition in Strategic Decision Making: Friend or Foe in the Fast-Paced 21st Century?', *Academy of Management Executive*, February 2005, pp. 19–30.

19 C. Flora, 'When to Go with Your Gut', *Women's Health*, June 2009, pp. 68–70.

20 See E. Dane and M. G. Pratt, 'Exploring Intuition and Its Role in Managerial Decision Making', *Academy of Management Review*, January 2007, pp. 33–54; M. H. Bazerman and D. Chugh, 'Decisions without Blinders', *Harvard Business Review*, January 2006, pp. 88–97; C. C. Miller and R. D. Ireland, 'Intuition in Strategic Decision

Making: Friend or Foe in the Fast-Paced 21st Century?', *Academy of Management Executive*, February 2005, pp. 19–30; E. Sadler- Smith and E. Shefy, 'The Intuitive Executive: Understanding and Applying "Gut Feel" in Decision Making', *Academy of Management Executive*, November 2004, pp. 76–91; and L. A. Burke and M. K. Miller, 'Taking the Mystery out of Intuitive Decision Making', *Academy of Management Executive*, October 1999, pp. 91–9.

21 E. Sadler-Smith and E. Shefy, 'Developing Intuitive Awareness in Management Education', *Academy of Management Learning & Education*, June 2007, pp. 186–205.

22 M. G. Seo and L. Feldman Barrett, 'Being Emotional during Decision Making: Good or Bad? An Empirical Investigation', *Academy of Management Journal*, August 2007, pp. 923–40.

23 R. D. Hof and H. Green, 'How Amazon Cleared that Hurdle', *BusinessWeek*, 4 February 2002, p. 59; K. Brigham, 'How Amazon Makes Money', *CNBC*, 13 February 2019, **https://www.cnbc.com/2019/02/12/how-amazon-makes-money.html**; and J. C. Owens, 'Amid Pandemic Surge, Amazon Has Already Outpaced 2019's Record Annual Profit ahead of Fourth Quarter that will Include Prime Day as well as Black Friday and Other Holiday Shopping', *Market Watch*, 29 October 2020, **https://www.marketwatch.com/story/amazon-has-already-had-its-most-profitable-year-ever-and-the-holidays-are-still-on-the-way-11604002512**.

24 Tasmanian Government Department of State Growth, 'Overview of Tasmanian's Freight System', 2014, https://www.stategrowth.tas.gov.au/_data/assets/pdf_file/0006/127275/Info_Paper_1._Tasmania_s_Freight_System.pdf, accessed 29 May 2020.

25 Geoscience Australia, 'Border Lengths – States and Territories', **www.ga.gov.au/scientific-topics/national-location-information/dimensions/border-lengths**, accessed 29 May 2020.

26 C. Chang, 'Australia's Coronavirus Infections Predicted to Reach 10,000 Cases in 10 Days', **www.news.com**, 25 March 2020.

27 Australian Government Department of Health, 'Coronavirus (COVID-19) Current Situation and Case Numbers', https://www.health.gov.au/news/health-alerts/novel-coronavirus-2019-ncov-health-alert/coronavirus-covid-19-current-situation-and-case-numbers, 29 May 2020

28 A. Deutschman, 'Inside the Mind of Jeff Bezos', *Fast Company*, August 2004, pp. 50–8.

29 See, for example, S. Schulz-Hardt, A. Mojzisch, F. C. Brodbeck, R. Kerschreiter and D. Frey, 'Group Decision Making in Hidden Profile Situations: Dissent as a Facilitator for Decision Quality', *Journal of Personality and Social Psychology*, December 2006, pp. 1080–3; and C. K. W. DeDreu and M. A. West, 'Minority Dissent and Team Innovation: The Importance of Participation in Decision Making', *Journal of Applied Psychology*, December 2001, pp. 1191–201.

30 S. Mohammed, 'Toward an Understanding of Cognitive Consensus in a Group Decision-Making Context', *Journal of Applied Behavioral Science*, December 2001, p. 408.

31 M. J. Fambrough and S. A. Comerford, 'The Changing Epistemological Assumptions of Group Theory', *Journal of Applied Behavioral Science*, September 2006, pp. 330–49.

32 R. A. Meyers, D. E. Brashers and J. Hanner, 'Majority–Minority Influence: Identifying Argumentative Patterns and Predicting

Argument–Outcome Links', *Journal of Communication*, Autumn 2000, pp. 3–30.

33 See, for example, T. Horton, 'Groupthink in the Boardroom', *Directors and Boards*, Winter 2002, p. 9.

34 I. L. Janis, *Groupthink* (Boston: Houghton Mifflin, 1982). See also J. Chapman, 'Anxiety and Defective Decision Making: An Elaboration of the Groupthink Mode', *Management Decision*, October 2006, pp. 1391–404.

35 See, for example, T. W. Costello and S. S. Zalkind (eds), *Psychology in Administration: A Research Orientation* (Upper Saddle River, NJ: Prentice Hall, 1963), pp. 429–30; R. A. Cooke and J. A. Kernaghan, 'Estimating the Difference between Group versus Individual Performance on Problem Solving Tasks', *Group and Organization Studies*, September 1987, pp. 319–42; and L. K. Michaelsen, W. E. Watson and R. H. Black, 'A Realistic Test of Individual versus Group Consensus Decision Making', *Journal of Applied Psychology*, October 1989, pp. 834–9. See also J. Hollenbeck, D. R. Ilgen, J. A. Colquitt and A. Ellis, 'Gender Composition, Situational Strength and Team Decision-Making Accuracy: A Criterion Decomposition Approach', *Organizational Behavior and Human Decision Processes*, May 2002, pp. 445–75.

36 Managing Diversity and Inclusion box based on N. J. Adler (ed.), *International Dimensions of Organizational Behavior*, 4th edn (Cincinnati, OH: South-Western College Publishing, 2001); B. C. McDonald and D. Hutcheson, 'Dealing with Diversity is Key to Tapping Talent', *Atlanta Business Chronicle*, 18 December 1998, pp. 45A+; P. M. Elsass and L. M. Graves, 'Demographic Diversity in Decision-Making Groups: The Experience of Women and People of Color',

Academy of Management Review, October 1997, pp. 946–73; and S. R. Sommers, 'On Racial Diversity and Group Decision Making: Identifying Multiple Effects of Racial Composition on Jury Deliberations', *Journal of Personality and Social Psychology*, October 2006, pp. 597–612.

37 See, for example, L. K. Michaelsen, W. E. Watson and R. H. Black, 'A Realistic Test of Individual versus Group Consensus Decision Making', *Journal of Applied Psychology*, October 1989, pp. 834–9; and P. W. Pease, M. Beiser and M. E. Tubbs, 'Framing Effects and Choice Shifts in Group Decision Making', *Organizational Behavior and Human Decision Processes*, October 1993, pp. 149–65.

38 J. Wagstaff, 'Brainstorming Requires Drinks', *Far Eastern Economic Review*, 2 May 2002, p. 34.

39 T. Kelley, 'Six Ways to Kill a Brainstormer', *Across the Board*, March–April 2002, p. 12.

40 K. L. Dowling and R. D. St. Louis, 'Asynchronous Implementation of the Nominal Group Technique: Is It Effective', *Decision Support Systems*, October 2000, pp. 229–48.

41 See also B. Andersen and T. Fagerhaug, 'The Nominal Group Technique', *Quality Progress*, February 2000, p. 144.

42 'Electronic Meeting System', **www.investopedia.com/terms/e/electronic-meeting-system.asp**, accessed 8 January 2018; and A. Roman, 'A Guide to Electronic Meeting Systems', *Convene*, 20 August 2014.

43 J. Burdett, 'Changing Channels: Using the Electronic Meeting System to Increase Equity in Decision Making', *Information Technology, Learning and Performance Journal*, Fall 2000, pp. 3–

12; and D. Gross and C. Gross, 'Impact of an Electronic Meeting System on the Group Decision-Making Process', *Computer Informatics Nursing*, January–February 2005, pp. 46–51.

44 'Fear of Flying', *Business Europe*, 3 October 2001, p. 2.

45 D. Gross and C. Gross, 'Impact of an Electronic Meeting System on the Group Decision-Making Process', *Computer Informatics Nursing*, January–February 2005, pp. 46–51.

46 M. Roberti, 'Meet Me on the Web', *Fortune: Tech Supplement*, Winter 2002, p. 10.

47 See also J. A. Hoxmeier and K. A. Kozar, 'Electronic Meetings and Subsequent Meeting Behavior: Systems as Agents of Change', *Journal of Applied Management Studies*, December 2000, pp. 177–95; and '10 Tips and Tricks for Zoom', *Zapier*, **https://zapier.com/blog/** zoom-tips, 2 April 2020.

48 See, for example, P. Berthon, L. F. Pitt and M. T. Ewing, 'Corollaries of the Collective: The Influence of Organizational Culture and Memory Development on Perceived Decision-Making Context', *Academy of Marketing Science Journal*, Spring 2001, pp. 135–50.

49 G. Hofstede, 'Motivation, Leadership and Organization: Do American Theories Apply Abroad?', *Organizational Dynamics*, Summer 1980, pp. 42–63.

50 J. de Haan, M. Yamamoto and G. Lovink, 'Production Planning in Japan: Rediscovering Lost Experiences or New Insights', *International Journal of Production Economics*, 6 May 2001, pp. 101–9.

51 D. Dunne and R. Martin, 'Design Thinking and How It Will Change Management Education: An Interview and Discussion',

Academy of Management Learning & Education, December 2006, p. 512.

52 M. Korn and R. E. Silverman, 'Forget B-School, D-School is Hot', *Wall Street Journal*, 7 June 2012, pp. B1+; R. Martin and J. Euchner, 'Design Thinking', *Research Technology Management*, May/June 2012, pp. 10–14; T. Larsen and T. Fisher, 'Design Thinking: A Solution to Fracture-Critical Systems', *DMI News & Views*, May 2012, p. 31; T. Berno, 'Design Thinking versus Creative Intelligence', *DMI News & Views*, May 2012, p. 28; J. Liedtka and T. Ogilvie, 'Helping Business Managers Discover Their Appetite for Design Thinking', *Design Management Review*, March 2012, pp. 6–13; and T. Brown, 'Strategy by Design', *Fast Company*, June 2005, pp. 52–4.

53 C. Guglielmo, 'Apple Loop: The Week in Review', *Forbes.com*, 25 May 2012, p. 2.

54 D. Dunne and R. Martin, 'Design Thinking and How It Will Change Management Education: An Interview and Discussion', *Academy of Management Learning & Education*, December 2006, p. 514.

55 C. Fitzsimmons, 'Big Data? Big Deal', *BRW*, 10–16 October 2013, pp. 14–22; F. Smith, 'Moneyball – Recruitment's Next Big Thing', *BRW*, 6–12 June 2013, pp. 35–7; and J. Lindhe, 'Numbers Meet Entertainment', *BRW*, 4–10 July 2013, pp. 47–9.

56 R. Bean, 'Big Data in the Time of Coronavirus (COVID-19)', *Forbes*, 20 March 2020.

57 C. Fitzsimmons, 'Big Data? Big Deal', *BRW*, 10–16 October 2013, pp. 14–22; F. Smith, 'Moneyball – Recruitment's Next Big Thing', *BRW*, 6–12 June 2013, pp. 35–7; and J. Lindhe, 'Numbers Meet Entertainment', *BRW*, 4–10 July 2013, pp. 47–9.

58 Business Victoria, 'Sustainability a Factor in Business Growth', **www.business.vic.gov.au/**, accessed 18 August 2017; Mansfield Regional Produce Store, **www.theproducestore.com.au**, accessed 14 October 2017; and Explore Australia, 'Mansfield Regional Produce Store', 2010, **www.exploreaustralia.net.au/Victoria/** High-Country, accessed 14 October 2017.

Chapter 6 Planning

Fact or fiction?

Planning is a waste of time, because no one can predict the future.

Fiction

We have long heard that the future is unpredictable. ***No matter how well you plan, there's always the unexpected***. For managers it might be a sudden recession, a new and innovative product from a competitor, the loss of a key customer or a key employee, or the breakdown of a long-established business model. This logic has led many to conclude that planning is a waste of time. Well, it's not. ***Planning isn't, and doesn't need to be, rigid***. For example, flexible planning that includes multiple scenarios can prepare managers for a variety of situations.

As we learnt in the opening chapter on managers and management, organisations have a purpose,

people and a structure that supports and enables those people to carry out that purpose. So, managers must develop goals, plans and strategies for how best to achieve that purpose. For instance, the president of Toyota Motor Company recently predicted that by 2030, hybrid and electric vehicles would make up half of the company's global sales.[1] However, sometimes after evaluating the outcomes of those plans and strategies, managers have to change direction as conditions change. This chapter presents the basics of planning. You'll learn what planning is, how managers use strategic management, and how they set goals and establish plans. Finally, we'll look at some of the contemporary planning issues managers face. And as the following case study about the MOSE project in Venice shows us, planning isn't just useful for what it helps us to achieve, but also for what it helps us to avoid!

Learning outcomes

6.1 Discuss the nature and purposes of planning.

6.2 Explain what managers do in the strategic management process.

6.3 Compare and contrast approaches to goal setting and planning.

6.4 Discuss contemporary issues in planning.

Planning to turn back the tide

The MOSE floodgates were built to protect Venice, but when danger threatened a lack of planning meant the city was left unprotected.

EQRoy/Shutterstock.com

For the last 30 years the Italian government has been working towards an ambitious goal: making Venice safe from rising sea levels for the next 100 years.[2] It's pursued this goal by undertaking the MOSE project: the construction of retractable barriers at the three points where the lagoon in which Venice and its surrounding islands are located connects to the Adriatic sea. Comprised of 78 steel floodgates, the barriers extend for over a mile in total and weigh around 300 tonnes. The floodgates are designed to lie along the sea floor connected to concrete pilings with giant hinges. When needed to protect the lagoon from a high tide, air is pumped into the gates, which then rise and block the tide.

Planning processes (and gaps in them!) have caused problems from the very beginning. The project design had to pass through the approval processes of over a dozen different public bodies, expert panels and courts, which took over a decade. Appeals by environmental groups concerned about

the project's impact on the lagoon ecosystem delayed things even further.

A private consortium was appointed to construct MOSE and commenced work in 2003, with an anticipated completion date of 2012. The Italian government budgeted 1.7 billion euros for the project, but the actual budget was approved each year, which only provided financial certainty for the following 12 months. In 2014, with the project still unfinished, a corruption scandal broke which saw 35 people, including the mayor of Venice, the regional governor and the chairman of the MOSE consortium arrested for bribery and other forms of corruption related to the project. The government then appointed a group of commissioners to oversee completion of MOSE, but work halted for nearly a year while they figured out how the project was being undertaken. 'We found a complete mess,' recalled one commissioner. 'It took time to get to the bottom of a system that was constructed in such a way that it could only be understood by the corrupt people who put it in place.' By 2015, work had resumed, but the floodgate hinges, designed to last for 100 years, were then found to be rusting. MOSE's engineers had previously noted that the metal alloy used for the hinges was degrading in the seawater but had been unable to have them manufactured with a different material due to the project's complex approval processes.

By 2019, project costs had blown out to over US$6.3 billion and a new consortium had taken over the construction, claiming it would be fully operational by 2021. But Nature

wouldn’t wait. On 12 November 2019, with extraordinarily high tides forecast for the lagoon, the mayor of one of the Venetian islands tried to have the MOSE floodgates activated. But no one had authority to raise the barriers because the government had yet to decide who would be in charge of operating MOSE. The mayor called the head of public works for the region, only to learn that they had retired and not yet been replaced. He then called the commissioner running the MOSE project, who instructed the MOSE engineers to raise the gates. They refused to do so, as the system had never been tested in rough waters or a high tide, and only some of the pumps used to raise the gates were connected. The tides subsequently rose nearly two metres higher than normal, causing the worst flooding Venice and the surrounding islands had experienced in over 50 years. Eighty per cent of Venice was flooded, causing the deaths of 11 people and damage estimated at US$1.1 billion.

What is planning, and why do managers need to plan?

Learning outcome 6.1 Discuss the nature and purposes of planning.

> **All** managers plan.

Planning is often called the primary management function because it establishes the basis for all the other things managers do as they organise, lead and control. As we have already seen, planning involves defining the organisation's objectives or goals, establishing an overall strategy for achieving those goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It's concerned with ends (*what* is to be done) as well as with means (*how* it's to be done).

Planning can be further defined in terms of whether it's *formal* or *informal*. All managers plan, even if it's only informally. In informal planning, very little, if anything, is written down. What is to be accomplished is in the heads of one or a few people. Furthermore, the organisation's goals are rarely verbalised. Informal planning generally describes the planning that takes place in many smaller businesses. The owner–manager has an idea of where they want to go and how they expect to get there. The planning is general and lacks continuity. Of course, you'll see informal planning in some large

organisations, while some small businesses will have sophisticated formal plans.

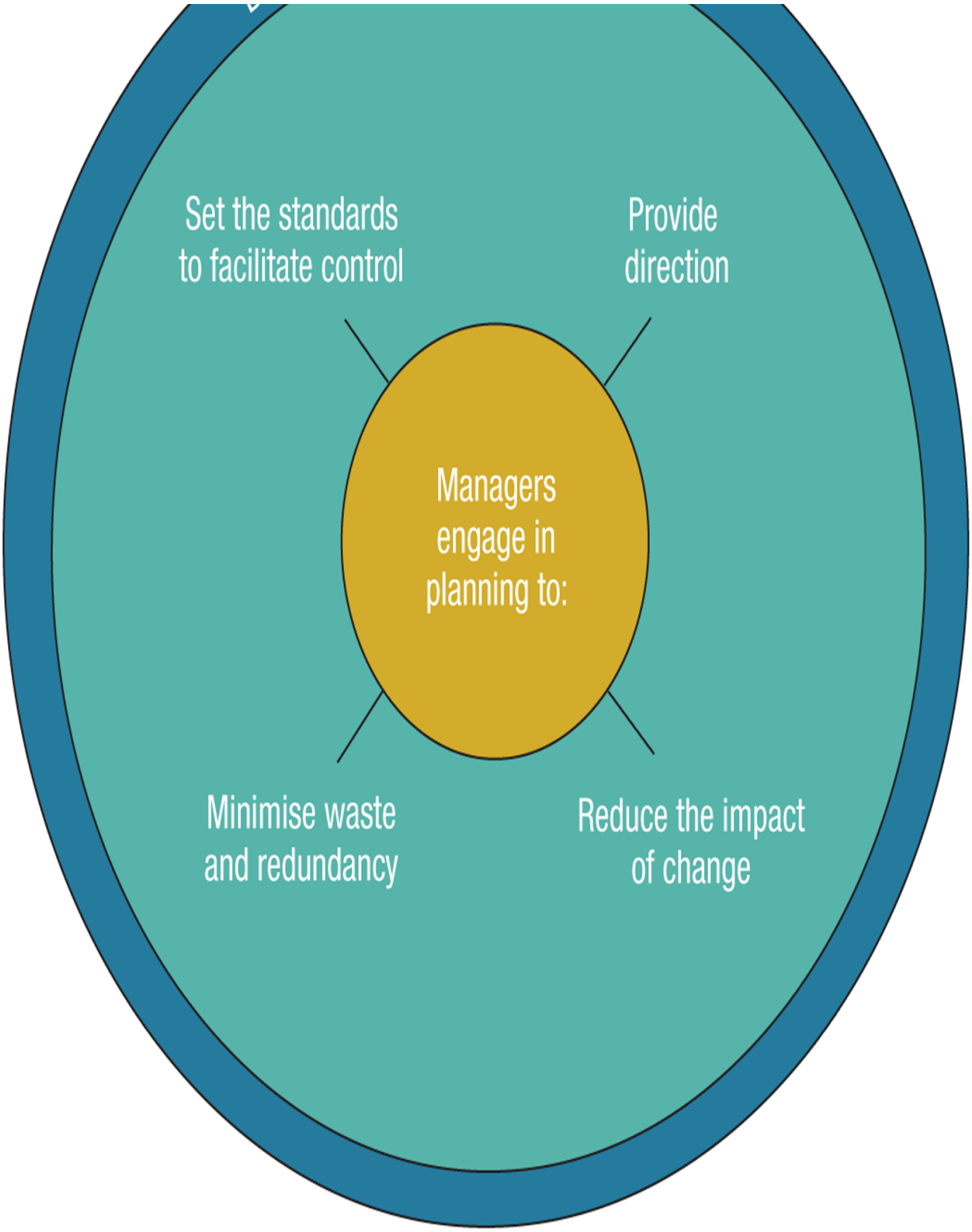
When we use the term *planning* in this book, we're referring to formal planning. Formal planning means: (1) defining specific goals covering a specific time period; (2) writing down these goals and making them available to organisation members; and (3) using these goals to develop specific plans that clearly define the path the organisation will take to get from where it is to where it wants to be.

Why should managers formally plan?

How does McDonald's – with over 37,800 restaurants in 120 countries serving nearly 68 million customers every day[3] – do what it does, and do it well and consistently? The key is its Plan to Win, which is built on three components: operational excellence, being the leader in marketing, and continual product innovation. McDonald's managers – from corporate to individual stores – know that planning is vital to the company's continued success.

There are at least four reasons why managers should plan (see **Figure 6.1**). First, planning *establishes coordinated effort*. It gives direction to managers and non-managerial employees. When all organisational members understand where the organisation is going and what they must contribute to enable it to reach its goals, they can begin to coordinate their activities, thus fostering teamwork and cooperation. On the other hand, *not* planning can cause organisational members or work units to work against one another and keep the organisation from moving efficiently towards its goals.

Figure 6.1 Reasons for planning


Set the standards to facilitate control
Provide direction
Managers engage in planning to:
Minimise waste and redundancy
Reduce the impact of change

Second, planning *reduces uncertainty* by forcing managers to look ahead, anticipate change, consider the impact of change and develop appropriate responses. It also clarifies the consequences of the actions managers might take in response to change. Planning, then, is precisely what managers need in a changing environment.

Third, planning *reduces overlapping and wasteful activities*. Coordinating efforts and responsibilities before the fact is likely to uncover waste and redundancy. Furthermore, when means and ends are clear, inefficiencies become obvious.

Finally, planning *establishes the goals or standards* that facilitate control. If organisational members aren't sure what they're working towards, how can they assess whether they've achieved it? When managers plan, they develop goals and plans. When they control, they see whether the plans have been carried out and the goals met. If significant deviations are identified, corrective action can be taken. Without planning, there are no goals against which to measure or evaluate work efforts.

What are some criticisms of formal planning, and how should managers respond?

It makes sense for an organisation to establish goals and direction, but critics have challenged some of the basic assumptions of planning.[4]

> **Criticism:** *Planning may create rigidity.* Formal planning efforts can lock an organisation into specific goals to be achieved within specific timetables. Such goals may have been set under the assumption that the environment wouldn't change. Forcing a course of action when the environment is random and unpredictable can be a recipe for disaster.
>
> **Manager's response:** Managers need to remain flexible and not be tied to a course of action simply because it's the plan.
>
> **Criticism:** *Formal plans can't replace intuition and creativity.* Successful organisations are typically the result of someone's vision, but these visions have a tendency to become formalised as they evolve. If formal planning efforts reduce the vision to a programmed routine, that too can lead to disaster.
>
> **Manager's response:** Planning should enhance and support intuition and creativity, not replace it.
>
> **Criticism:** *Planning focuses managers' attention on today's competition, not on tomorrow's survival.* Formal planning, especially strategic planning (which we'll discuss shortly), has a

tendency to focus on how best to capitalise on existing business opportunities within the industry. Managers may not look at ways to re-create or reinvent the industry.

Manager's response: When managers plan, they should be open to forging into uncharted waters if there are untapped opportunities.

Criticism: *Formal planning reinforces success, which may lead to failure.* You may have heard people say that success breeds success. After all, if it's not broken, don't fix it. Right? Well maybe not! Success may, in fact, breed failure in an uncertain environment. It's hard to change or discard successful plans – to leave the comfort of what works for the uncertainty (and anxiety) of the unknown.

Manager's response: Managers may need to face that unknown and be open to doing things in new ways to be even more successful.

Managing for sustainability: Planning for a more sustainable future

The benefits of formal planning are especially relevant to managing for sustainability:

- Formal planning processes help managers and employees to develop a shared understanding of the organisation's sustainability goals and priorities.
- By enabling coordinated effort, formal planning helps organisational members to work together to manage the impact of the organisation's activities.
- By improving the organisation's capacity to deal with change, formal planning helps organisational members to deal more effectively with issues that can affect sustainability outcomes.
- By reducing overlapping and wasteful activities, formal planning helps the organisation to use resources in a more sustainable manner.
- By establishing the goals and standards that facilitate control, formal planning helps organisations to continuously monitor and improve their handling of sustainability issues.

But there's one more benefit to formal planning for sustainability, and that is helping the organisation to be more competitive.[5] Many organisations are finding that customers are increasingly making decisions based on a supplier's sustainability efforts. As sustainability manager for Focus Press, a Sydney-based printing company, Louise Pastro witnessed this first hand. 'Sustainability has crept up the list of supplier requirements,' she recalled. 'People used to buy print based on price, quality, service and those sorts of things, but in the past few years we've seen a change … over 90 per cent of tender request documents have some sort of question related to environmental impact.'

Other organisations, such as footwear manufacturer Okabashi, have found that planning around sustainability provides advantages over rival companies. Unlike other footwear manufacturers, Okabashi makes shoes using a soy-based material that can be reused. This means the materials from any shoes that don't meet quality standards can be repurposed to make new shoes, which actually last longer than ones made without recycled material. Minimising waste in this way has helped the company to reduce its business costs and enhance sustainability, and also to improve productivity. For example, it was recently able to fill an order for 30,000 pairs of sandals in only three weeks![6]

Does formal planning improve organisational performance?

> Does it **pay** to plan?

Does it pay to plan? Or have the critics of planning won the debate? Let's look at the evidence.

Contrary to what the critics of planning say, the evidence generally *supports* the position that organisations should have formal plans. Although most studies that have looked at the relationship between planning and performance have shown generally positive relationships, we can't say that organisations that formally plan always outperform those that don't.[7] But what can we conclude?

- *Formal planning* generally means higher profits, higher return on assets and other positive financial results.
- The *quality of the planning process* and the *appropriate implementation of the plan* probably contribute more to high performance than does the extent of planning.
- In those organisations where formal planning didn't lead to higher performance, the *environment* – for example, governmental regulations, unforeseen economic challenges and so forth – was often to blame. Why? Because managers have fewer viable alternatives.

One important aspect of an organisation’s formal planning is strategic planning, which managers do as part of the strategic management process.

What do managers need to know about strategic management?

Learning outcome 6.2 Explain what managers do in the strategic management process.

What is strategic management?

Strategic management is what managers do to develop an organisation's strategies. What are an organisation's **strategies**? They're the plans for how the organisation will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.

strategic management

What managers do to develop an organisation's strategies

strategies

Plans for how the organisation will do what it's in business to do, how it will compete successfully, and how it will attract its customers in order to achieve its goals

Strategic management is important because *it can make a difference in how well an organisation performs.* Why do some businesses succeed and others fail, even when faced with the same environmental conditions? Research has found a generally positive relationship between strategic planning and performance.[8] Those companies that strategically plan appear to have better financial results than those organisations that don't.

Another reason why strategic planning is important has to do with the fact that *managers in organisations of all types and sizes face continually changing situations.* (Recall our discussion in the chapter on the external organisational environment.) They cope with this uncertainty by using the strategic management process to examine relevant factors in planning future actions.

Finally, strategic management is important because *organisations are complex and diverse, and all the parts need to work together to achieve the organisation's goals*. Strategic management helps organisations do this. For example, with more than 414,000 employees worldwide working in various countries, sectors and functional areas, IBM uses strategic management to help coordinate and focus employees' efforts on what is important.[9]

Strategic management isn't just for business organisations. Even organisations such as government agencies, hospitals, educational institutions and social agencies need it. For example, the skyrocketing costs of a university education, competition from for-profit companies offering alternative educational environments, state budgets being

slashed because of declining revenues, and cutbacks in financial support for students and research have led many university administrators to assess their institution’s aspirations and identify a market niche in which they can survive and prosper.

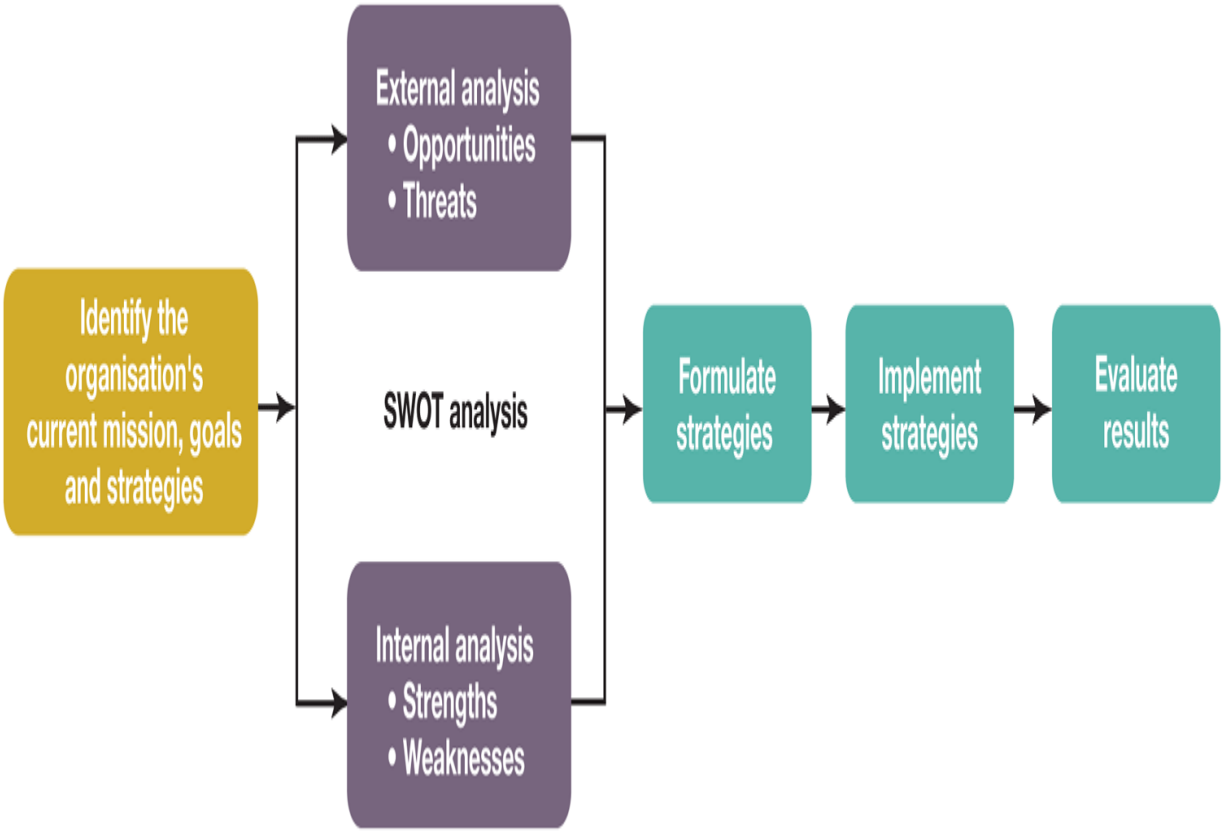
Zhang Xin, co-founder and CEO of SOHO China, poses in front of skyscrapers the firm built in Beijing. Xin and her husband started SOHO with a narrowly focused and highly successful strategy of developing commercial real estate in prime locations in Beijing and Shanghai that features architecture reflecting the spirit of a changing modern China.

Ton Koene/ZUMApress/Newscom

What are the steps in the strategic management process?

The **strategic management process** (see **Figure 6.2**) is a six-step process that encompasses strategy planning, implementation and evaluation. The first four steps describe the planning that must take place, but implementation and evaluation are just as important! Even the best strategies can fail if managers don't implement or evaluate them properly. Strategies need to be formulated for all levels in the organisation: corporate, competitive and functional.

Figure 6.2 The strategic management process



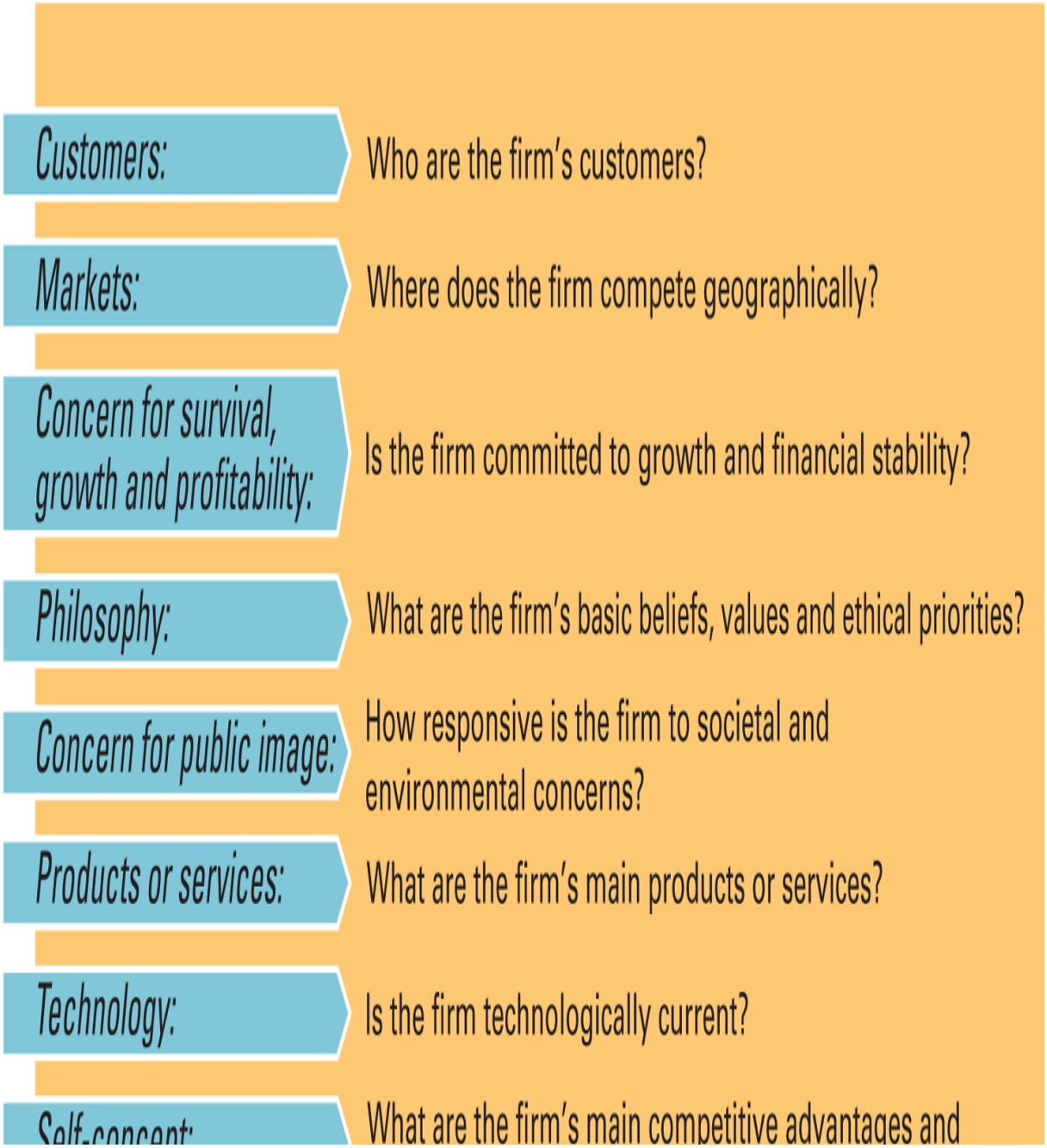
strategic management process

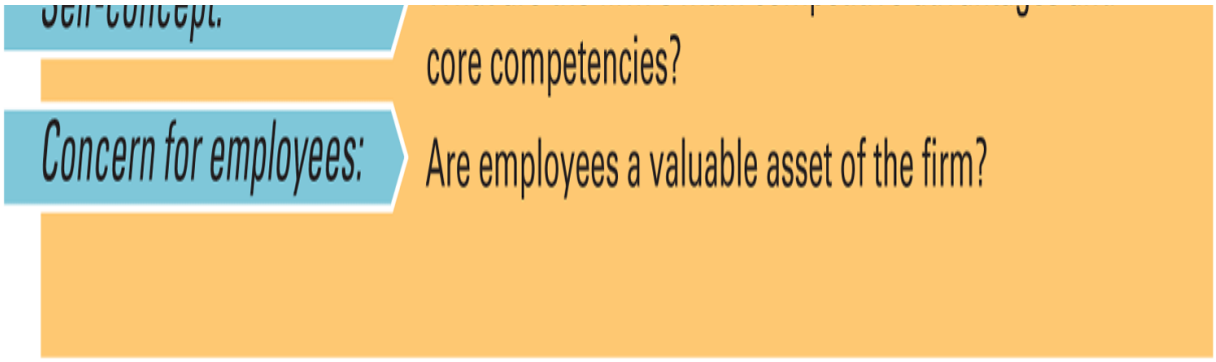
A six-step process that encompasses strategy planning, implementation and evaluation

Step 1: **Identifying the organisation's current mission, goals and strategies.** Every organisation needs a **mission** – a statement of its purpose. Defining the mission forces managers to identify what it's in business to do. For example, the mission of the National Heart

Foundation of Australia is to ‘reduce suffering and death from heart, stroke and blood vessel disease in Australia’. This statement provides a clue to what this organisation sees as its purpose. What should a mission statement include? **Figure 6.3** describes some typical components.

Figure 6.3 Components of a mission statement





Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 238. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

mission
A statement of an organisation's purpose

It's also important for managers to identify current goals and strategies. Why? So they have a basis for assessing whether those goals and strategies need to be changed.

Step 2: **Doing an external analysis.** Analysing the external environment is a critical step in the strategic management process. Managers do an external analysis so that they know, for example, what the competition is doing, what pending legislation might affect the organisation, or what the labour supply is like in locations where it operates. In an external analysis, managers should examine all

components of the organisation's general and specific environments to see the trends and changes.

Once they've analysed the environment, managers need to pinpoint opportunities that the organisation can exploit and threats that it must counteract or buffer against. **Opportunities** are positive trends in the external environment; **threats** are negative trends.

opportunities
Positive trends in the external environment

threats
Negative trends in the external environment

Step 3: **Doing an internal analysis.** Now we move to the internal analysis, which provides important information about an organisation's specific resources and capabilities. An organisation's **resources** are the assets – financial, physical, human and intangible – that it uses to develop, manufacture and deliver products to its customers. They're 'what' the organisation has. On the other hand, its **capabilities** are the skills and abilities needed to do the work activities in its business – 'how' it does its work. The main value-

creating capabilities of the organisation are known as its **core competencies**.[10] Both resources and core competencies determine the organisation's competitive weapons.

resources

An organisation's assets that it uses to develop, manufacture and deliver products to its customers

capabilities

An organisation's skills and abilities in doing the work activities needed in its business

core competencies

The main value-creating capabilities of an organisation

After completing an internal analysis, managers should be able to identify organisational strengths and weaknesses. Any activities the organisation does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities the organisation doesn't do well or resources it needs but doesn't possess.

strengths

Any activities the organisation does well or any unique resources that it has

weaknesses

Activities the organisation doesn't do well or resources it needs but doesn't possess

The combined external and internal analyses are called the **SWOT analysis** because it's an analysis of the organisation's *s*trengths, *w*eaknesses, *o*pportunities and *t*hreats. After completing the SWOT analysis, managers are ready to formulate appropriate strategies – that is, strategies that (1) exploit an organisation's strengths and external opportunities, (2) buffer or protect the organisation from external threats, or (3) correct critical weaknesses.

SWOT analysis

The combined external and internal analyses

Step 4: **Formulating strategies.** As managers formulate strategies, they should consider the realities of the external environment and their available resources and capabilities so they can then design strategies that will help their organisation achieve its goals. Managers typically formulate three main types of strategies: corporate, competitive and functional (see **Table 6.1**).

Table 6.1 Strategic options

Sources: N. Argyres and A. M. McGahan, 'Introduction: Michael Porter's Competitive Strategy', Academy of Management Executive, May 2002, pp. 41–2; N. Argyres and A. M. McGahan, 'An Interview with Michael Porter', Academy of Management Executive, May 2002, pp. 43–52; N. Ahmed, 'Working It Out', AFRBoss, December–January 2010, pp. 17–19; N. Hooper, 'On a Mission', AFRBoss, December–January 2010, p. 31; J. Lindhe, 'Peter Davis – Frontline Recruitment', BRW, 28 July 2009, p. 23; L. Gettler, 'Sunny Side Up', BRW, 9–15 April 2009, p. 43; L. D. Fisher, 'Wealth of Experience', BRW, 8–14 July 2010, pp. 36–7; 'Driza-Bone', Wikipedia, accessed 26 August 2010; L. Battersby, 'Nokia to Cut 10 000 Jobs', The Age, 16 June 2012; and B. Carson, 'Apple Just Bought a Company That Tracks Your Sleep', Business Insider Australia, 10 May 2017.

> SWOT

A **corporate strategy** is an organisational strategy that specifies what businesses a company is in, or wants to be in, and what it wants to do with those businesses. It's based on the mission and goals of the organisation and the roles that each business unit of the

organisation will play. A **competitive strategy** is one that details how the organisation will compete in its business(es) to gain and maintain a competitive advantage. Every organisation has resources (assets) and capabilities (how work gets done), but some organisations are more successful than others. The reason is that only some organisations are able to effectively exploit their resources and to develop the core competencies that provide a competitive advantage. Market instabilities, new technologies and other changes can challenge managers' attempts at creating a long-term, sustainable competitive advantage. However, by using strategic management, managers can better position their organisation to get a sustainable competitive advantage. **Functional strategies** are the strategies used by an organisation's various functional departments to support the competitive strategy.

corporate strategy

An organisational strategy that specifies what businesses a company is in, or wants to be in, and what it wants to do with those businesses

competitive strategy

An organisational strategy for how an organisation will compete in its business(es)

functional strategy

Strategy used in an organisation's various functional departments to support the competitive strategy

STEP 5: **Implementing strategies.** Once strategies are formulated, they must be implemented. No matter how effectively an organisation has planned its strategies, performance will suffer if the strategies aren't implemented properly.

STEP 6: **Evaluating results.** The final step in the strategic management process is evaluating results. How effective have the strategies been at helping the organisation reach its goals? What adjustments are necessary: Do assets need to be acquired or sold? Does the organisation need to be reorganised? and so forth.

What strategic weapons do managers have?

In today's intensely competitive and chaotic marketplace, organisations are looking for whatever 'weapons' they can use to do what they're in business to do and to achieve their goals. We think six strategic 'weapons' are important in today's environment: customer service, employee skills and loyalty, innovation, quality, social media and big data. We've covered customer service in previous chapters and will discuss innovation and employee-related matters later in the book. That leaves quality, social media and big data for us to look at.

Quality as a strategic weapon

When W. K. Kellogg started manufacturing cornflake cereal in 1906, his goal was to provide customers with a high-quality, nutritious product that was enjoyable to eat. That *emphasis on quality is still important* today. Every Kellogg employee is responsible for maintaining the high quality of the company's products.

Many organisations use quality practices to build competitive advantage and attract and hold a loyal customer base. If implemented properly, quality can be a way for an organisation to create a sustainable competitive advantage.[11] And if a business is

able to engage in **continuous improvement** of the quality and reliability of its products, it may have a competitive advantage that can't be taken away.[12] Incremental improvement is something that becomes an integrated part of an organisation's operations and can develop into a considerable advantage.

continuous improvement

An organisation's commitment to continually improving the quality of a product or service

Social media as a strategic weapon

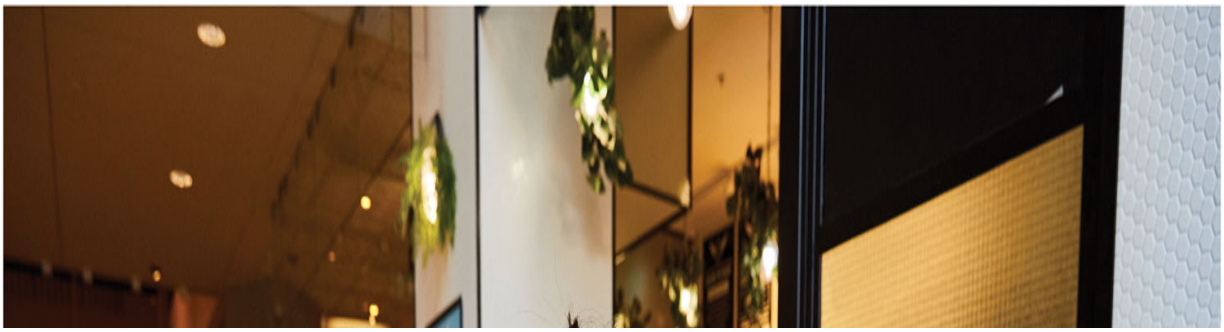
Successful social media strategies should (1) help people both inside and outside the organisation to connect; and (2) reduce costs or increase revenue possibilities, or both. As managers look at how to strategically use social media, it's important to have goals and a plan. For example, Deloitte Australia, one of the country's four biggest professional service companies, analysed communication patterns on its internal social media platform to determine how Deloitte divisions communicate with each other. The analysis showed that 94 per cent of communication was work-related, and 30 per cent created the 'speed to insight' about client issues that helped Deloitte employees 'change our client's capacity to act'.[13]

A 2017 survey by Sensis of 800 Australian consumers and 1,100 Australian businesses found that 63 per cent of consumers were more likely to trust a brand if it interacted positively on social media.[14]

It's not just for the social connections that organisations are employing social media strategies. Many are finding that social media tools can boost productivity.[15] For example, many doctors are tapping into online postings and sharing technologies as part of their daily routines. Collaborating with colleagues and experts allows them to improve the speed and efficiency of patient care. When used strategically, social media can be a powerful weapon, as can big data!

Big data as a strategic weapon

Big data can be an effective counterpart to the information exchange generated through social media. All the enormous amounts of data collected about customers, partners, employees, markets and other quantifiables can be used to respond to the needs of these same stakeholders. With big data, managers can measure and know more about their businesses and 'translate that knowledge into improved decision making and performance'.[16]



Sheryl Thai, founder of Cupcake Central, has used social media as a strategic weapon to overcome two major challenges for a new business: promote your business with virtually no marketing budget, and build a strong customer base.[17] Fortunately, with a background in

IT, Sheryl knew how powerful social media could be! Thanks to her YouTube baking tip videos, customers posting cupcake pics on Instagram and the Cupcake Central Facebook page, 30 per cent of Cupcake Central's sales now come through online channels.

Courtesy of Sheryl Thai. Photographer: Ryan Wheatley

Kraft Foods, for example, analysed 1.5 million posts about Vegemite on social media, blogs, message boards and online news sites to understand what consumers thought of the product, which has a salty, beefy taste that people tend to either love or hate.[18] Analysts found that a surprisingly high number of people discussing Vegemite were also mentioning avocado, tomato, cream cheese or roast meat. Investigating further, Kraft found there were large groups of Australian and New Zealand customers eating Vegemite in their own unique way, including those who mix it with cream cheese to dilute the taste. This produced two very successful innovations for Kraft: the 'How do you have your Vegemite?' campaign, which generated a 5 per cent sales increase for the product; and Cheesybite, a Vegemite and cheese blend that achieved $14 million in sales in the first three years on the market.

By helping a business do what it's in business to do, compete successfully, and attract and satisfy its customers in order to achieve its goals, big data is a critical strategic weapon. But to use it effectively, managers need to be able to make sense of vast amounts of data. That's where digital tools come in. **Digital tools** include technology, systems and software programs that managers use to collect, visualise, understand and analyse data. Let's look briefly at

three of the more prevalent digital tools available today. **Data visualisation tools** help managers to organise and summarise data through visual displays. For example, managers can use bar charts and trend lines to visualise how profits for particular products are increasing or decreasing over time. They can also use pie charts to visualise what proportion of total profits comes from each product. **Cloud computing** allows managers to store and access data on the internet, rather than on a company's hard drives, servers or network. Using cloud computing, managers can efficiently and effectively access vast amounts of data without having to invest in expensive hardware. The **Internet of Things** (IoT) allows everyday objects to generate and store data about their own performance, which can then be shared across the internet. The IOT is basically a web-based network system on which any 'thing' (e.g. machine, object, animal, person) with a unique identifier can transfer data without human-to-human or human-to-computer interaction.[19] For instance, the IOT networks of 'smart' parking meters can advise drivers where to find vacant parking spaces, collect parking revenues via mobile phone apps, and send immediate notifications to local authorities when traffic accidents or damage to meters make parking spaces unusable.[20]

digital tools

Technology, systems or software that allow the user to collect, visualise or analyse data

data visualisation tools

Tools that allow the user to visually display data

cloud computing

Storing and accessing data on the internet, rather than on a computer's hard drive or a company's network

Internet of Things

Internet-based system on which data from any entity with a unique identifier can be collected or accessed without human-to-human or human-to-computer interaction

When used effectively to help managers make decisions, digital tools can be powerful strategic weapons. But as with any tool, that depends on managers knowing how to use them well. Managers still need to use their own knowledge and judgment to make sense of the

data they are using. They also need to consider the context in which the data was collected, and the context in which it is being used. For instance, when was it collected? Might things have changed since then? In this respect, digital tools can powerfully complement planning approaches but don’t replace them.

Once managers have the organisation’s strategies in place, it’s time to set goals and develop plans to pursue those strategies.

How do managers set goals and develop plans?

> Learning outcome 6.3 Compare and contrast approaches to goal setting and planning.

> $\text{Planning} = \textbf{goals} + \textbf{plans}.$

Planning involves two important aspects: goals and plans. **Goals (objectives)** are desired outcomes or targets. They guide managers' decisions and form the criteria against which work results are measured. **Plans** are documents that outline how goals are going to be met. They usually include resource allocations, budgets, schedules and other necessary actions to accomplish the goals. As managers plan, they develop both goals and plans.

goals (objectives)
: Desired outcomes or targets

plans

Documents that outline how goals are going to be met

What types of goals do organisations have, and how do they set those goals?

Although it might seem that organisations have a single goal – for businesses, to make a profit, and for not-for-profit organisations, to meet the needs of some constituent group(s) – an organisation's success can't be determined by a single goal. In reality, all organisations have multiple goals. For example, businesses may want to increase market share, keep employees motivated or work towards more environmentally sustainable practices. A church provides a place for religious practices, but it also assists economically disadvantaged individuals in its community and acts as a social gathering place for church members.

Types of goals

Most companies' goals can be classified as either strategic or financial. Financial goals are related to the financial performance of the organisation, while strategic goals are related to all other areas of its performance. For example, the financial targets set by McDonald's include 3–5 per cent average annual sales and revenue growth, 6–7 per cent average annual operating income growth, and returns on

invested capital in the high teens.[21] An example of a strategic goal: Nissan's CEO's request for the company's GT-R super sports car: match or beat the performance of Porsche's 911 Turbo.[22] These goals are **stated goals** – official statements of what an organisation says, and what it wants its stakeholders to believe, its goals are. However, stated goals – which can be found in an organisation's charter, annual report and public relations announcements, or in public statements made by managers – are often conflicting and influenced by what various stakeholders think organisations should do. Such statements can be vague and probably better represent management's public relations skills instead of being meaningful guides to what the organisation is actually trying to accomplish. It shouldn't be surprising, then, to find that an organisation's stated goals are often irrelevant to what's actually done.[23]

The stated goal of the Royal Flying Doctor Service is to provide excellent aeromedical and primary health care across Australia.[24] As one of the largest aeromedical services in the world, the RFDS achieves this goal by providing emergency and primary medical care to people living in remote and rural locations across Australia, servicing a total area of almost 7.7 million square kilometres.

Used with permission from the Royal Flying Doctor Service of Australia

stated goals

Official statements of what an organisation says, and wants its stakeholders to believe, its goals are

> Stated vs **real goals**.

If you want to know an organisation's **real goals** – those goals an organisation actually pursues – observe what organisational members are doing. Actions define priorities. Knowing that real and stated goals may differ is important for recognising what you might otherwise think are inconsistencies.

real goals

Those goals an organisation actually pursues as shown by what the organisation's members are doing

Setting goals

As we said earlier, goals provide the direction for all management decisions and actions and form the criterion against which actual accomplishments are measured. Everything organisational members do should be oriented towards achieving goals. These goals can be

set either through a process of traditional goal setting or by using management by objectives.

Traditional goal setting

In **traditional goal setting**, goals set by top managers flow down through the organisation and become subgoals for each organisational area. This traditional perspective assumes that top managers know what's best because they see the 'big picture'. The goals passed down to each succeeding level guide individual employees as they work to achieve those assigned goals. Take a manufacturing business, for example. The managing director tells the production manager what they expect manufacturing costs to be for the coming year, and tells the marketing manager what level they expect sales to reach for the year. These goals are passed to the next organisational level and written to reflect the responsibilities of that level, passed to the next level and so forth. Then, at some later time, performance is evaluated to determine whether the assigned goals have been achieved.

traditional goal setting

Goals set by top managers flow down through the organisation and become subgoals for each organisational area

When the hierarchy of organisational goals is clearly defined, it forms an integrated network of goals, or a **means–ends chain**. Higher-level goals (or ends) are linked to lower-level goals, which serve as the means for their accomplishment. In other words, the goals achieved at lower levels become the means to reach the goals (ends) at the next level up through the different organisational levels. For example, retailers such as Bras N Things and Sanity Music set daily sales targets for each sales region and each store. By achieving its sales target for the day, each store also contributes to achieving the sales goals for its sales region.

> ***means–ends chain***
>
> An integrated network of goals in which higher-level goals are linked to lower-level goals, which serve as the means for their accomplishment

One problem with traditional goal setting is that when top managers define the organisation's goals in broad terms – such as achieving 'sufficient' profits or increasing 'market leadership' – these ambiguous goals have to be made more specific as they flow down through the organisation. Managers at each level define the goals and apply their own interpretations and biases as they make them more specific.

Clarity is often lost as the goals make their way down from the top of the organisation to lower levels.

Management by objectives

As an alternative to traditional goal setting, many organisations use **management by objectives (MBO)**, a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. If a manager were to use this approach, they would sit down with each member of their team and set goals and then periodically review whether progress was being made towards achieving those goals. MBO programs have four elements: goal specificity, participative decision making, an explicit time period and performance feedback.[25] Instead of using goals to ensure that employees are doing what they're supposed to be doing, MBO uses goals to motivate them as well. The appeal is that it focuses on employees working to accomplish goals they've had a hand in setting. (See the **Classic Concepts in Today's Organisations box for more information on MBO**.)

management by objectives (MBO)
A process of setting mutually agreed-upon goals, and then using those goals to evaluate employee performance

Studies of actual MBO programs have shown that it can increase employee performance and organisational productivity. For example, one review of MBO programs found productivity gains in almost all of them. But is MBO relevant for today's organisations? Yes, if it's viewed as a way of setting goals, because research shows that *goal setting can be an effective tool in motivating employees*.[27]

Classic concepts in today's organisations: All you need to know about MBO!

Management by objectives (MBO) isn't new – it was a popular management approach in the 1960s and 1970s. The concept can be traced back to Peter Drucker, who first popularised the term in his 1954 book *The Practice of Management*.[26] Its appeal lies in its emphasis on converting overall objectives into specific objectives for organisational units and individual members.

How is MBO used?

- MBO makes goals practical and operational as they 'cascade' down through the organisation.

- Overall broad objectives are translated into specific objectives for each succeeding organisational level – division, departmental, individual.

- Result: a hierarchy that links objectives at one level to those at the next level.

- For each individual employee, MBO provides specific personal performance objectives.

- If all individuals achieve their goals, then the unit's goals will be attained. If all units attain their goals, then the divisional goals will be met until ... BOOM ... the organisation's overall goals are achieved!

Does MBO work?

- Assessing MBO effectiveness is *not* easy!

- Research on goal-setting research gives us some answers:

    + Specific, difficult-to-achieve goals – an important part of MBO – produce a higher level of output than do no goals or generalised goals such as 'do your best'.

    + Feedback – also an important part of MBO – favourably affects performance, as it lets a person know whether their level of effort is sufficient or needs to increase.

    – Participation – also strongly advocated by MBO – has *not* shown any consistent relationship to performance.

ABSOLUTELY CRITICAL: Top management commitment to the MBO process. When top managers have a high commitment to MBO and are personally involved in its implementation, productivity gains are higher than without that commitment.

Discuss this

MBO requires people at all organisational levels to take responsibility for setting goals and performance targets. What challenges do you think this created for people and organisations in which goals were previously only set by top managers? Do you think people and organisations would face the same challenges using MBO today? Why or why not?

Characteristics of well-written goals

No matter which approach is used, goals have to be written, and some goals more clearly indicate what the desired outcomes are. Managers should develop well-written goals.

Table 6.2 lists the characteristics of well-written goals.[28] With these characteristics in mind, managers are now ready to actually set goals.

Table 6.2 Well-written goals

Steps in setting goals

Managers should follow six steps when setting goals.

1. **Review the organisation's mission and employees' key job tasks.** The mission statement provides an overall guide to what's important, and goals should reflect that mission. In addition, it's important to define what you want employees to accomplish as they do their tasks.
2. **Evaluate available resources.** Don't set goals that are impossible to achieve given your available resources. Goals should be challenging, but realistic. After all, if the resources you have to work with won't allow you to achieve a goal no matter how hard you try or how much effort is exerted, you shouldn't set that goal.
3. **Determine the goals individually or with input from others.** Goals reflect desired outcomes and should be congruent with the organisational mission and goals in other organisational areas. These goals should be measurable and specific, and include a time frame for accomplishment.
4. **Make sure goals are well-written, and then communicate them to all who need to know.** Writing down and communicating goals forces people to think them through. Written goals become visible evidence of the importance of working towards something.
5. **Build in feedback mechanisms to assess goal progress.** If goals aren't being met, change them as needed.
6. **Link rewards to goal attainment.** Employees want to know, 'What's in it for me?' Linking rewards to goal achievement will help answer that question.

Once the goals have been established, written down and communicated, managers are ready to develop plans for pursuing them.

What types of plans do managers use, and how do they develop those plans?

Managers need plans to help them clarify and specify how goals will be met. Let's look first at the types of plans managers use.

Types of plans

The most popular ways to describe plans are in terms of their *breadth* (strategic versus tactical), *time frame* (long-term versus short-term), *specificity* (directional versus specific) and *frequency of use* (single-use versus standing). As **Table 6.3** shows, these types of plans aren't independent. That is, strategic plans are usually long-term, directional and single-use. Let's look at each type of plan.

Table 6.3 Types of plans

Breadth

Strategic plans are those that apply to an entire organisation and encompass the organisation's overall goals. **Tactical plans** (sometimes referred to as operational plans) specify the details of

how the overall goals are to be achieved. When Qantas created its budget airline Jetstar, it was the result of strategic planning. Deciding when, where and how to actually operate the business was the result of tactical plans in marketing, logistics, finance and so forth.

strategic plans
: Plans that apply to the entire organisation and encompass its overall goals

tactical plans
: Plans that specify the details of how the overall goals are to be achieved

Time frame

The time frame of a plan refers to the length of time it will be used to guide organisational actions. **Short-term plans** cover one year or less. **Long-term plans** are sometimes defined as plans with a time frame beyond three years, but this differs.

short-term plans

Plans with a time frame of one year or less

long-term plans

Plans with a time frame beyond three years

Specificity

Directional plans are flexible plans that set general guidelines. **Specific plans** are plans that are clearly defined and leave no room for interpretation. Intuitively, it would seem that specific plans would be preferable to directional, or loosely guided, plans. However, when uncertainty is high, managers must be flexible in order to respond to unexpected changes. Any manager who engages in planning must keep in mind that you have to weigh the flexibility of directional plans against the clarity of specific plans. For example, an organisation that wishes to reduce its carbon emissions might develop a directional plan to reduce wastage wherever possible, or a specific plan to reduce paper usage by 10 per cent per year. The directional plan is flexible enough to be followed in a variety of different circumstances. The specific plan focuses on a detailed course of action in only one specific area of operation.

directional plans

Plans that are flexible and set general guidelines

specific plans

Plans that are clearly defined and leave no room for interpretation

The crowd reacts as Band of Horses perform at the Big Day Out music festival in Sydney in 2013. Organisers of such music festivals use standing plans to organise the operational details for each year's event.

Regis Martin/Alamy Stock Photo

> **Flexibility** ↔ **clarity**.

Frequency of use

Some plans that managers develop are ongoing, while others are used only once. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. For example, Mars

One, a Dutch not-for-profit organisation, has developed a single-use plan to establish a permanent human settlement on the planet Mars.[29] In contrast, **standing plans** are ongoing plans that provide guidance for activities performed repeatedly. For example, when you enrol for classes for the upcoming semester, you're using a standardised enrolment system at your university. The dates change, but the process works the same way semester after semester.

single-use plan
: A one-time plan specifically designed to meet the needs of a unique situation

standing plans
: Plans that are ongoing and provide guidance for activities performed repeatedly

Developing plans

The process of developing plans is influenced by the planning approach followed and three contingency factors: organisational level,

degree of environmental uncertainty, and length of future commitments.[30]

As **Figure 6.4** shows, a manager's organisational level determines the kind of planning they engage in. For the most part, lower-level managers do operational (or tactical) planning, while upper-level managers do strategic planning.

Figure 6.4 Planning and organisational level

The second contingency factor is environmental uncertainty. When uncertainty is high, plans should be specific, but flexible. Managers must be prepared to change or amend plans as they are implemented. Flight plans for aircraft provide a useful analogy. When a pilot plans a flight, they establish a specific goal of reaching a particular destination but may alter the plan for reaching the destination depending on the flying conditions they encounter.

The last contingency factor is related to the time frame of plans. The **commitment concept** says that plans should extend far enough to meet those commitments made when the plans were developed. Planning for too long or too short a time period is inefficient and ineffective. We can see the importance of the commitment concept, for example, with the plans that organisations make to increase their computing capabilities. At the data centres where companies' computers are housed, many have found that their 'power-hungry computers' generate so much heat their electricity bills have skyrocketed because of the increased need for air conditioning.[31]

How does this illustrate the commitment concept? As organisations expand their computing technology, they're 'committed' to whatever future expenses are generated by that plan. They have to live with the plan and its consequences.

> ***commitment concept***
>
> The idea that plans should extend far enough to meet those commitments made when the plans were developed

Approaches to planning

How an organisation plans can best be understood by looking at *who* does the planning. In the traditional approach, planning is done entirely by top-level managers who often are assisted by a **formal planning department**, a group of planning specialists whose sole responsibility is to help write the various organisational plans. Under this approach, plans developed by top-level managers flow down through other organisational levels, much like the traditional approach to goal setting. As they flow down, the plans are tailored to the particular needs of each level of the organisation. Although this approach makes managerial planning thorough, systematic and coordinated, all too often the focus is on developing 'the plan', a thick binder (or binders) full of meaningless information, that's stuck away

on a shelf and never used by anyone for guiding or coordinating work efforts. In fact, in a survey of managers about formal top-down organisational planning processes, over 75 per cent said that their company's planning approach was unsatisfactory.[32] A common complaint was that 'plans are documents that you prepare for the corporate planning staff and later forget'. Although this traditional top-down approach to planning is used by many organisations, it's effective only if managers understand the importance of creating documents that organisational members actually use, not documents that look impressive but are never referred to in planning.

formal planning department

A group of planning specialists whose sole responsibility is to help write the various organisational plans

Managing for diversity and inclusion: Carrot or stick?

In many countries, governments require that organisations (especially publicly listed companies) develop formal plans for increasing the diversity of their boards of directors and top management teams.[33] Formal plans and goals are needed because as one female director succinctly stated: ‘You have to make it a goal in order for it to happen.’

Diversity goals are commonly framed as either targets or quotas. Targets are voluntary and set by the organisation. Quotas are generally mandated by the government: for example, in Norway 40 per cent of company directors must be female. Advocates of quotas argue that they force organisations to take diversity issues more seriously, make conscious efforts to recruit, attract, select and retain more diverse employees, and be held accountable for the degree of effort they do (or don’t) put into increasing diversity. The downside is that mandated quotas can undermine merit-based hiring, leading people to be perceived (and even feel) like they have only been appointed to a particular role to fulfil a diversity goal. They may also be marginalised, viewed as tokens, or treated as ‘second-class citizens’ rather than valued contributors. In contrast, targets, being voluntary, are

> promoted as more likely to be ‘owned’ by the organisation, but critics note that this means they can also be marginalised, ignored or progressively reduced.
>
> Recent studies suggest that both have a role to play in increasing diversity. One study on the effect of quotas and targets on increasing female representation on boards of company directors found that ‘mandatory quotas (set through hard law usually with sanctions for non-compliance) ... achieve early and significant results ... [but] voluntary targets ... promote more effective cultural and practical change’. Another study suggested the use of both approaches creates a ‘carrot and stick’ system of incentives because ‘quotas establish precedents ... which targets strive to achieve by voluntary means’. The researchers predict, however, that ‘if countries that have adopted quotas make more rapid progress in gender diversity in leadership, there will be insistent calls for the adoption of quotas in all jurisdictions’.

Another approach to planning is to involve more organisational members in the process. In this approach, plans aren’t handed down from one level to the next, but instead are developed by organisational members at the various levels and in the various work units to meet their specific needs. When organisational members are more actively involved in planning, they see that the plans are more than just something written down on paper. They can actually see that they are used in directing and coordinating work.

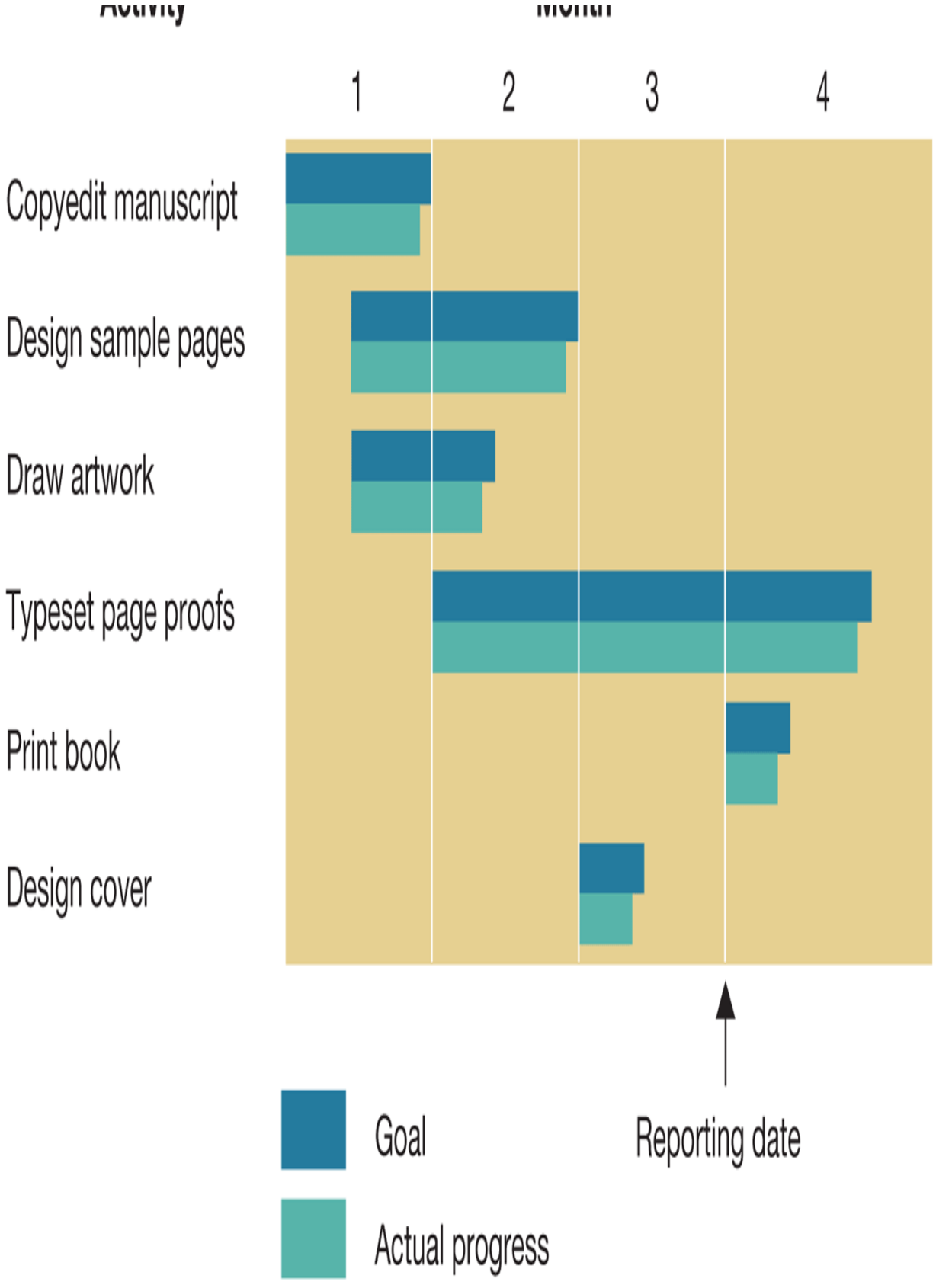
What are some popular planning tools?

Managers use many different tools for developing and implementing their plans. The following section reviews some useful approaches.[34]

Gantt charts

The **Gantt chart** is a planning tool developed around the turn of the 20th century by Henry Gantt. This simple but important device allows managers to easily detail what has yet to be done to complete a job and to assess whether it's ahead of, behind or on schedule. The Gantt chart is essentially a bar graph, with time on the horizontal axis and the activities to be scheduled on the vertical axis. It illustrates when tasks are supposed to be done and the actual progress on each. **Figure 6.5** shows a Gantt chart that was developed for book production by a major publishing company. Time is expressed in months across the top of the chart. Activities are listed down the left side. The planning comes in deciding what activities need to be done to get the book finished, the order in which those activities need to be done, and the time that should be allocated to each activity. The bars show output, both planned and actual, over a period of time.

Figure 6.5 A sample Gantt chart


Activity
Month
1
2
3
4
Copyedit manuscript
Design sample pages
Draw artwork
Typeset page proofs
Print book
Design cover
Goal
Actual progress
Reporting date

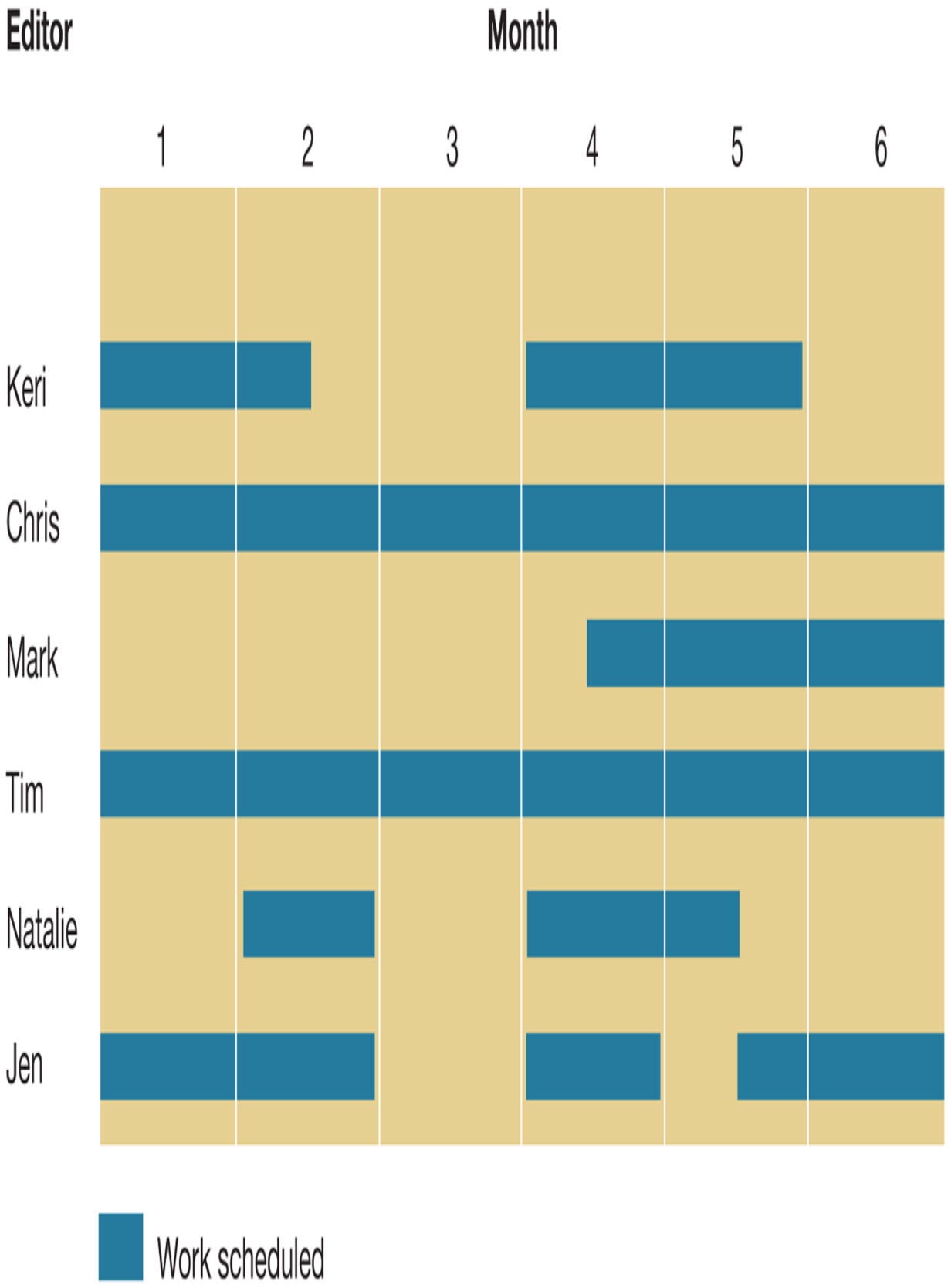
Gantt chart

A bar graph, with time on the horizontal axis and the activities to be scheduled on the vertical axis, which illustrates when tasks are supposed to be done and the actual progress on each

Load charts

A modified version of the Gantt chart is the **load chart**. Instead of listing activities on the vertical axis, load charts list whole departments or specific resources. This information allows managers to plan and control for capacity utilisation. For example, **Figure 6.6** shows a load chart for six production editors at the same publishing company. Each editor supervises the design and production of several books. By reviewing the load chart, the executive editor who supervises the six production editors can see who is free to take on a new book. If everyone is fully scheduled, the executive editor might decide not to accept any new projects, to accept some new projects and delay others, to ask the editors to work overtime or to employ more production editors.

Figure 6.6 A sample load chart


Editor
Month
1
2
3
4
5
6
Keri
Chris
Mark
Tim
Natalie
Jen
Work scheduled

load chart

A modified version of the Gantt chart that lists whole departments or specific resources on the vertical axis to demonstrate capacity utilisation

PERT networks

Gantt and load charts are helpful for activities or projects that are independent of each other. If a manager had to plan a large project such as a complete reorganisation or the development of a new product, they would need to coordinate inputs from hundreds or thousands of activities, some of which must be done sequentially and others concurrently. The program evaluation and review technique, usually just called PERT or PERT network analysis, was originally developed in the late 1950s for coordinating more than 3,000 contractors and agencies working on the Polaris submarine weapon system. PERT is reported to have cut two years off the completion date for the Polaris project.

A **PERT network** is a flow-chart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity. To develop a PERT network, a project manager must think through what has to be done, determine which events depend on one another and identify potential trouble

spots. PERT allows managers to monitor a project's progress, identify possible bottlenecks and shift resources as necessary to keep the project on schedule. PERT also makes it easy to compare the effects that alternative actions will have on scheduling and costs.

PERT network

A flow-chart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity

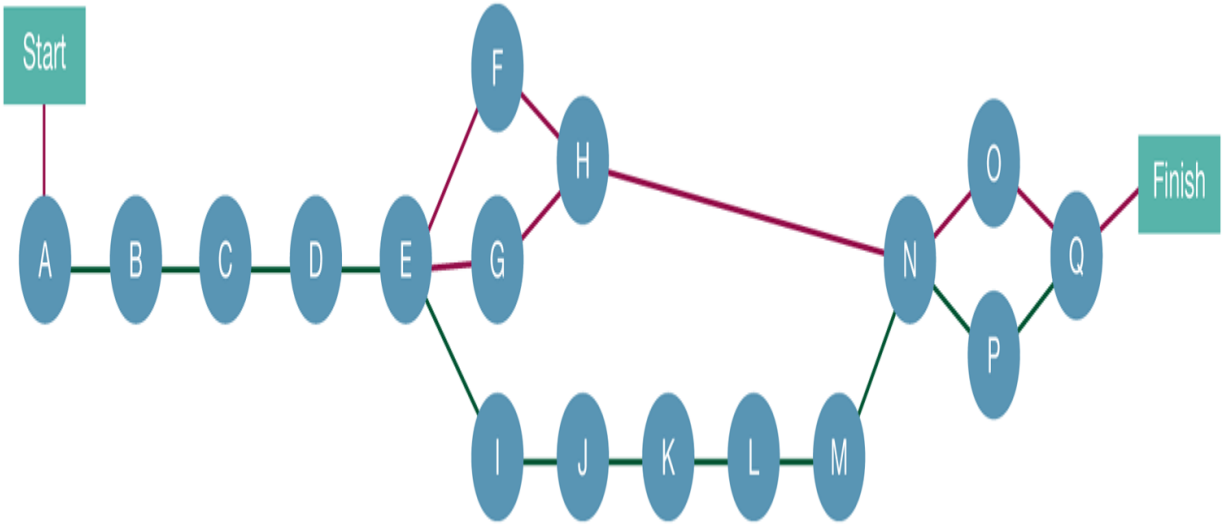
To construct a PERT network you need to determine events, activities and the critical path. Events (sometimes called milestones) are end points that represent the completion of major activities. Events represent a point in time at which something significant has happened. Activities are the actions that take place and consume time or resources as the project progresses from one event to another. The critical path is the longest or most time-consuming sequence of events and activities required to complete the project in the shortest amount of time.[35]

Let's consider how we would develop a PERT network for the construction of a new house. **Table 6.4** outlines the main events in the construction project and the estimated time taken to complete

each activity. **Figure 6.7** exhibits the PERT network based on the data in **Table 6.4**. By tracing along the network's critical path (A B C D E I J K L M N P Q), we can see that if everything goes according to plan, it will take just over 32 weeks to build the house. Any delay in completing the events along the critical path will delay the completion of the entire project. For example, if it took three weeks instead of one to complete excavation, then the entire project would be delayed by two weeks. However, delaying events that are not on the critical path, such as installing the brick front and siding, will have little effect on the overall completion time.

Table 6.4 Main activities in building a custom home

Figure 6.7 A PERT network for building a custom home



PERT networks can also show us where we are creating slack time that we can use to speed the project up or make up for delays. Slack time is the time difference between the critical paths and all other paths. For example, we can see that activities N, P and Q will take 4

weeks, but path NOQ will only take 3.5 weeks. However, we can't put NOQ on the critical path because activity Q can't begin until activities O and P are both completed. Although activity O takes half a week, activity P takes one full week, so the earliest we can begin activity Q is after one week. The half-week between completing activity O and starting activity Q is slack time. If we needed to, we could use that time to work on another critical activity or make up time lost earlier in the project.

As you can see, tools like these can be used for planning and can also be used as control devices by illustrating deviations from the plan. In addition to helping managers estimate the times associated with different stages of a project, they also track whether the project is running to schedule. If delays occur, managers can then adjust completion timelines or take corrective action to make up the lost time.

What contemporary planning issues do managers face?

Learning outcome 6.4 Discuss contemporary issues in planning.

We conclude this chapter by addressing two contemporary issues in planning. Specifically, we’re going to look at planning effectively in dynamic environments and then at how managers can use environmental scanning, especially competitive intelligence.

How can managers plan effectively in dynamic environments and for crisis situations?

> $\text{Dynamic environments} + \text{crisis situations} = \textbf{planning challenges}.$

As we have seen, the external environment is continually changing. How, then, can managers effectively plan? We've already discussed uncertain environments as one of the contingency factors that affect the types of plans managers develop. Because dynamic environments are more the norm than the exception, let's look at how managers can effectively plan in such environments.

Companies such as Hyundai monitor a constant stream of data about their operations in order to identify and resolve issues as quickly as possible.

Information about part shipments to suppliers identifies potential supply issues. Camera feeds from factory floors provide real-time information about production processes and help managers identify competitor spies or signs of industrial disputes. Meanwhile, updates on research and development activities help managers adjust schedules for the development and release of new products.[37]

123rf.com

In an uncertain environment, managers should develop plans that are specific, but flexible. Although this may seem contradictory, it's not. To be useful, plans need some specificity, but they shouldn't be set in stone. Managers need to recognise that planning is an ongoing process. The plans serve as a road map, although the destination may change due to dynamic environmental conditions. Managers should be ready to change direction if circumstances fluctuate. This flexibility is particularly important as plans are implemented. Managers need to stay alert to environmental changes that may impact implementation and respond as needed. Keep in mind, also, that even when the environment is highly uncertain, it's important to continue formal planning in order to see any effect on organisational performance. It's the persistence in planning that contributes to significant performance improvement. Why? It seems that, as with most activities, managers 'learn to plan' and the quality of their planning improves when they continue to do it.[36] Finally, make the organisational hierarchy flatter to effectively plan in dynamic environments. A flatter hierarchy means lower organisational levels can set goals and develop plans because organisations have little time for goals and plans to flow down from the top. Managers should teach their employees how to set goals and to plan, and then trust them to do it.

Crisis situations require managers to be prepared above-and-beyond the normal everyday planning challenges associated with dynamic environments. This is because when you are planning for a crisis you can't wait until a crisis happens! Managers need to already have a comprehensive crisis plan

prepared and in place. Achieving this requires intense and deliberate planning. Experts suggest that a crisis response plan needs to cover three critical dimensions: people, preparedness and testing.[38] This is because when a crisis hits, organisational members need to know how they are supposed to respond, and how to go about doing that. This requires preparedness and rehearsing plans through simulated crisis testing. A simple example is a fire drill. Organisations use fire drills to teach people when to evacuate, where to go, and how to evacuate safely in the event of a real fire.

How can managers use environmental scanning?

A manager's analysis of the external environment may be improved by **environmental scanning**, which involves screening large amounts of information to detect emerging trends. One of the fastest-growing forms of environmental scanning is **competitive intelligence**, which provides managers with accurate information about their competitors that enables managers to anticipate competitors' actions, rather than merely react to them.[39] It seeks basic information about competitors: Who are they? What are they doing? How will what they're doing affect us?

environmental scanning
An analysis of the external environment, which involves screening large amounts of information to detect emerging trends

competitive intelligence

A type of environmental scanning that gives managers accurate information about competitors

Many who study competitive intelligence suggest that much of the competitor-related information managers need in order to make crucial strategic decisions is available and accessible to the public.[40] In other words, competitive intelligence isn't organisational espionage. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, webpages, Facebook pages, newspaper reports, information on the internet and industry studies are readily accessible sources of information. Specific information on an industry and associated organisations is increasingly available through electronic databases. Managers can literally tap into this wealth of competitive information by purchasing access to databases. Attending trade shows and debriefing your own sales staff can also be good sources of information on competitors. In addition, many organisations even regularly buy competitors' products and ask their own employees to evaluate them as a way to learn about new technical innovations.[41]

In a changing global business environment, environmental scanning and obtaining competitive intelligence can be quite complex, especially when information must be gathered from around the world. However, managers could subscribe to news services that review

newspapers and magazines from around the globe and provide summaries to client companies.

Rethinking management in a global crisis: Planning in a pandemic

The COVID-19 pandemic taught individuals, organisations and governments some powerful lessons about planning in a crisis and a highly dynamic environment. The speed of change, the scale of changes occurring and the high levels of uncertainty required that plans be constantly developed, revised and replaced as circumstances changed. Some governments and organisations had already prepared plans for dealing with a pandemic. But some aspects of the crisis could not have been foreseen and had to be dealt with as they developed, such as Australia's nationwide run on toilet paper. In the early days and weeks when it was unclear how fast and how far the virus would spread, governments focused on goals such as limiting the spread of infection and determining how it was occurring. New plans resulted: close state borders, isolate people who had or may have the virus, limit social contact to minimise infection opportunities. As social isolation restrictions came into effect, individuals and families had to develop new plans for doing everyday things such as shopping for food, doing their jobs, educating their children. Businesses in industries such as hospitality, events and tourism had only a few days to plan how they would shut down when restrictions came into force, and how they would survive if they

couldn’t trade. Other organisations, such as hospitals, schools and child-care centres, had to quickly plan how to adapt their service delivery to new government rules. Then, as infection rates slowed, a new planning challenge emerged: determining when and how things could be returned to ‘normal’!

Managers do need to be careful about the way information, especially competitive intelligence, is gathered so as to prevent any concerns about whether it’s legal or ethical. Difficult decisions about competitive intelligence arise because often there’s a fine line between what’s considered *legal and ethical* and what’s considered *legal but unethical.* Although the top manager at one competitive intelligence firm contends that 99.9 per cent of intelligence gathering is legal, there’s no question that some people or companies will go to any lengths – some unethical – to get information about competitors.[42]

Social media is particularly valuable for collecting competitor intelligence. Organisations can identify emerging trends by monitoring online conversations and other information transmitted via social media. For example, through LinkedIn a manager might learn that a competitor is expanding a certain division by seeing that more people are updating their profiles to say they now work in that particular team. This unprecedented access to immediate and endless information means managers need to adapt their approaches to planning. For one thing, they need to plan how to access the information. Software tools and analytical techniques can help. For example, software programs can be used to calculate ‘buzz volume’,

which isolates relevant online messages about a specific company's brand. The key is to take a strategic approach, so as not to get buried in the overwhelming amount of information that exists. Another consideration is how to respond to the information. Managers must be able to adapt plans quickly in response to trends or other intelligence they gather through social media scanning.

How can managers use benchmarking?

Environmental scanning and the gathering of competitor intelligence can also assist **benchmarking**, which is the search for the best practices among competitors or non-competitors that lead to their superior performance. The basic idea of benchmarking is that managers can improve quality by analysing and then copying the methods of the leaders in various fields. In 1979, Xerox undertook what is widely regarded as the first benchmarking effort in the United States. Xerox's managers couldn't figure out how Japanese manufacturers could sell medium-sized copiers in the United States for considerably less than Xerox's production costs. So the company's head of manufacturing took a team to Japan to make a detailed study of its competition's costs and processes. The team got most of their information from Xerox's own joint venture partner, Fuji-Xerox, which knew its competition well. What the team found was shocking. Their Japanese rivals were light-years ahead of Xerox in efficiency. Benchmarking those efficiencies was the beginning of Xerox's recovery in the copier field. Today, many organisations use benchmarking practices to establish new goals and plans for improving their organisation. For example, Southwest Airlines in the United States studied Indy 500 pit crews, who can change a race car's tyre in under 15 seconds, to see how their gate crews could make their gate turnaround times even faster.[43]

benchmarking

The search for best practices among competitors or non-competitors that lead to their superior performance

A question of ethics: Is there enough time to act ethically?

You have been asked to take over the planning process for the development of a new factory. The factory will manufacture one of your company's biggest-selling products and is expected to create 200 jobs in the local community, which is currently experiencing high unemployment. The plan needs to be completed by the end of June so that the construction costs can be included in the budget for the next financial year. If the plan isn't finalised by June, construction will be delayed by at least a year.

When you review the schedule for consulting with stakeholders about the new development, you realise that a local residents group has been left off the schedule. You ask the previous manager why they didn't include the group in the consultation plan. The manager replies that the residents weren't consulted because the time frame for completing the construction plan was tight. If the residents raised concerns that would require changes to the development plans, the company might miss the deadline to have the plan completed by the end of June.

Discuss this

- What, if anything, would be unethical about deliberately excluding some stakeholders from a planning process?
- How can managers balance the need to address stakeholder concerns with the need to meet planning deadlines?

Review

Chapter 6 summary

6.1 Discuss the nature and purposes of planning.

As the primary management function, planning establishes the basis for all the other things that managers do. The planning we're concerned with is formal planning; that is, specific goals covering a specific time period are defined and written down, and specific plans are developed to make sure those goals are met. There are four reasons why managers should plan: (1) it establishes coordinated efforts; (2) it reduces uncertainty; (3) it reduces overlapping and wasteful activities; and (4) it establishes the goals or standards that are used in controlling work. Although criticisms have been directed at planning, the evidence generally supports the position that organisations benefit from formal planning.

6.2 Explain what managers do in the strategic management process.

Managers develop the organisation's strategies in the strategic management process, which is a six-step process encompassing strategy planning, implementation and evaluation. The six steps are as follows: (1) identify the organisation's current mission, goals and strategies; (2) do an external analysis; (3) do an internal analysis; steps 2 and 3 together are called SWOT analysis; (4) formulate strategies; (5) implement strategies; and (6) evaluate results. The end result of this process is a set of corporate, competitive and functional strategies that allow the organisation to do what it's in

business to do and to achieve its goals. Six strategic weapons are important in today's environment: customer service, employee skills and loyalty, innovation, quality, social media and big data.

6.3 Compare and contrast approaches to goal setting and planning.

The goals of most companies are classified as either strategic or financial. We can also look at goals as either stated or real. In traditional goal setting, goals set by top managers flow down through the organisation and become subgoals for each organisational area. Organisations could also use management by objectives, which is a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. Plans can be described in terms of their breadth, time frame, specificity and frequency of use. Plans can be developed by a formal planning department or by involving more organisational members in the process.

6.4 Discuss contemporary issues in planning.

One contemporary planning issue is planning in dynamic environments, which usually means developing plans that are specific but flexible. Also, it's important to continue planning even when the environment is highly uncertain. Finally, because there's little time in a dynamic environment for goals and plans to flow down from the top, lower organisational levels should be allowed to set goals and develop plans. Another contemporary planning issue is using environmental scanning to help do a better analysis of the external environment. One form of environmental scanning,

competitive intelligence, can be especially helpful in finding out what competitors are doing, either by traditional methods or by using technology such as social media.

Discussion questions

6.1 Contrast formal with informal planning.
6.2 Discuss why planning is beneficial.
6.3 Describe in detail the six-step strategic management process.
6.4 What is a SWOT analysis, and why is it important to managers?
6.5 Given how fast things can change in a crisis situation, is it a waste of time to develop plans in advance? Why or why not?
6.6 Under what circumstances do you believe MBO would be most useful? Discuss.
6.7 Describe how managers can plan in today's dynamic environment.
6.8 What types of planning do you do in your personal life? Describe these plans in terms of being (a) strategic or operational; (b) short-term or long-term; (c) specific or directional; and (d) single-use or standing.
6.9 Write down a personal goal you want to achieve this year. Now review the characteristics of well-written goals detailed in this chapter and rewrite your goal statement so that it has all six characteristics.
6.10 'The concept of competitive advantage is as important for not-for-profit organisations as it is for for-profit organisations.' Do you agree or disagree with this statement? Explain, using examples to make your case.

Management skills spotlight: Being a good goal setter

It’s been said that if you don’t know where you’re going, any road will get you there. It has also been said that the shortest distance between two points is a straight line. These two ‘adages’ emphasise the importance of goals. Managers are typically judged on their ability to achieve goals. If individuals or units in the organisation lack goals, there can be no direction or unity of effort. So, successful managers are good at both setting their own goals and helping others to set theirs.

Experiential exercise

Organisations of all types and sizes should have mission statements. Mission statements are important because they compel managers and decision makers to think about why the organisation exists and what it is trying to achieve. What is its purpose? What value is it trying to create in the world? How is it trying to be different from other organisations?

Mission statements are supposed to resonate with members of the organisation and make them think, 'Yes, *that* is why we are all here! *That* is what I am helping to achieve when I perform my role here.'. But this can only happen if the goals and values detailed in the mission statement reflect the goals and values that people experience in the day-to-day operations of the organisation.

1. Find the mission statement for an organisation that you belong to (e.g. your workplace, your university, a sporting club or a social organisation).
2. Read over the mission statement. What does it indicate about the values and goals of the organisation? What does it say about the organisation's priorities?
3. Now think about what you have experienced as a member of the organisation. What values and goals did you think the organisation was focusing on? What were the priorities of the other organisational members you have met?

4. Reflect on this experience using the following reflective questions:
    a. Describe your experience. Did the organisation's mission statement resonate with you? Or were you surprised by what you read in the mission statement?
    b. Interpret your experience. Why do you think you had the response to the mission statement that you did? What have you seen and heard and experienced in that organisation that reinforced (or contradicted) the mission statement?
    c. Evaluate your experience. What did you learn from this experience about the value of mission statements for helping people understand the goals and priorities of a particular organisation?
    d. Apply your learning. How could you apply what you learnt in the future? Next time you join a new organisation and read its mission statement, how will you determine whether it 'truly' reflects the organisation's actual goals and priorities?

Case application: Less is more

Successful strategic management requires that organisations and managers can turn potential threats into opportunities. And that's what Unilever is planning to do as it deals with water scarcity.[44] Water scarcity is fast becoming a critical issue for people, communities and organisations around the world. Consumer demand for water doubled between 1950 and 2015 and is expected to double again by 2030. By that time, 4 billion people around the world will be living in water-stressed regions. Dealing with water scarcity forces consumers to make tradeoffs about the ways they use their time, energy and, yes, water. For example, in developing countries where water isn't available in the home, women must be the 'water managers' for their households and spend time collecting, storing and rationing water. These responsibilities affect their health and safety, their wellbeing, and their opportunities for education and employment.

Villagers collect drinking water from a roadside water pump, Rajasthan, India, 2013.

Sourabh_Vyas/Shutterstock.com

> New challenges = **new opportunities.**

For Unilever, water scarcity is a critical issue because it will directly affect the company's sustainability. As a global manufacturing company Unilever produces home care, personal care, food and drink, and water-purifying products used by over 2.5 billion consumers every day. These product categories use over 99 per cent of the water consumed in the home, so water scarcity could potentially limit the use of Unilever's products. But rather than see this as a threat to the company's future, Unilever set itself three new goals: (1) develop innovative new products that help consumers in water-scarce regions; (2) reduce water usage in the company's own operations and supply chains; and (3) foster social change around the infrastructure for, and availability and use of, domestic water.

In pursuit of its first goal, the company set itself the target of halving the water used by consumers of Unilever products. In the US, for example, domestic water usage averages 550 litres per day (compared to 90 litres a day in China), so the company has focused on developing new products that reduce water usage for showering, in the garden and in the kitchen. To achieve its second goal, Unilever is mapping out the water and climate risks in its supply chains in order to understand more precisely where and how water scarcity could affect its operations. It is also working with agricultural suppliers to help them improve their irrigation equipment and techniques so that they use water more efficiently in crop production. Unilever has also focused on improving water efficiency in its manufacturing operations and factories, through creating

community stewardship programs in key factory locations. To achieve its third goal, Unilever is working with national governments to support the systemic change needed to achieve more sustainable water supplies. This includes investments in water infrastructure, changes to water pricing, and the use of water metering to improve the quality and quantity of water supplies.

Some of Unilever's plans have already begun to pay off. By 2019 it had reduced the water abstracted in its manufacturing processes by nearly 50 per cent, which equates to saving 3.4 litres of water for every person on the planet. It has also developed products that use less water for rinsing, including a range of no-rinse conditioners that reduce shower times by an average of 99 seconds. It has also successfully built a Hygiene Centre in a slum area of Mumbai, in India, to provide safe drinking water and laundry facilities for over 1,500 people as a pay-per-use service, by recirculating water used for bathing, hand washing and laundry to flush toilets.

Discussion questions

6.11 How does this case study illustrate strategic management?

6.12 Which strategic options is Unilever pursuing? Do you think it is pursuing them successfully?

6.13 What types of plans is Unilever using to deal with water scarcity?

6.14 How might Unilever use benchmarking to evaluate its performance in achieving its goals?

Running case: Holiday home helpers: Planning for success

At the end of Mia's first week at HHH, Skylar invited her to join the quarterly planning session for all the company's regional managers on the following Friday.

'Sounds good!' said Mia. 'What do you do in this session?'

'It's the planning session for the next financial year. We'll start by reviewing our performance against last year's strategic goals. We'll be focusing on our goals to expand into four new geographic regions, to increase the number of clients we service, and to launch some new premium services. For instance, we launched a "refresh and revitalise" service, where we rejuvenate the client's property. We do things like put a fresh coat of paint indoors and outdoors, and replace any fixtures that the owners want to update. In the garden we might sow lawns, fertilise and mulch garden beds, and plant new plants if the owners want us to do that. Owners pay well to have all that done for them, and because we can do a lot of jobs concurrently the property is closed for bookings for a much shorter period than it would be if everything was being done by different suppliers.

> Failing to plan = **planning to fail**?

‘The rest of the session will focus on the company’s strategic goals and financial targets for the new financial year. That way, all our regional managers understand the goals we are working towards as a company, and the strategies we’re using to achieve them. Then they can develop the tactical plans they will use to achieve those goals in their local regions. That’s why we do this separately from our regular monthly catch-up of the regional management team. We want people to be in that planning headspace, not distracted by other matters.’

‘What should I do to prepare for the session?’ asked Mia.

‘Have a look over the strategic plan for last year. The internal analysis of the company should match pretty well with what you’ve learnt about us this week. You mentioned that you’ve been working on an environmental analysis of the company: bring that along, as it would be great to see how your take compares to ours.’

‘And what sorts of evaluation data do you use?’

‘Our booking management system provides the data about things like the number of clients and properties we service, how much take-up we’ve had of additional services, how much we are billing clients, and any adjustments we’ve had to make to pricing. Last year we had to reduce our rates in two regions because new competitors opened up there and were undercutting us. Every three months, we review the service packages and rates that competitors are offering to make

sure ours are still competitively priced and offering something unique.'

'How do you do that?'

'Watch their advertising, and their webpages and Facebook pages,' said Skylar. 'That's all information that's in the public domain and freely available. We once had a client claim a competitor was offering them a particularly good deal to switch to their company, and the regional manager involved rang the competitor pretending to be a holiday home owner to see what rates and services the company offered them. To me that's misleading and deceptive conduct. So, we now have a company directive that if a client says, "I've been offered this service or this price by your competition", and they have it in writing, we'll negotiate to try and match it. But only if it's in writing!'

Discussion questions

6.15 Why does HHH use formal planning? What advantages does this create for the company?
6.16 What sort of corporate strategy is HHH pursuing? What sort of competitive strategy is it using?
6.17 What types of plans are illustrated in the case study?
6.18 How does HHH use environmental scanning and benchmarking?

Endnotes

1 C. Tsuneaoka, ‘Toyota Sees Half of Sales Coming from Hybrids, EVs’, *Wall Street Journal Online*, 13 December 2017.

2 M. Stancati and E. Sylvers, ‘The Wall That Would Save Venice From Drowning is Underwater’, *The Wall Street Journal*, 21 November 2019; N. E. Robbins, ‘Deep Trouble: Can Venice Hold Back the Tide?’, *The Guardian*, 10 December 2019; and A. Bendix, ‘A 6.5 Billion Sea Wall was Supposed to Stop Venice from Flooding. Now, Most of the City is Underwater’, *The Business Insider*, 3 November 2018.

3 McDonald’s, https://en.wikipedia.org/wiki/McDonald%27s, accessed 27 January 2020.

4 M. C. Mankins and R. Steele, ‘Stop Making Plans – Start Making Decisions’, *Harvard Business Review*, January 2006, pp. 76–84; L. Bossidy and R. Charan, *Execution: The Discipline of Getting Things Done* (New York: Crown/Random House, 2002); P. Roberts, ‘The Art of Getting Things Done’, *Fast Company*, June 2000, p. 162; H. Mintzberg, *The Rise and Fall of Strategic Planning* (New York: Free Press, 1994); G. Hamel and C. K. Prahalad, *Competing for the Future* (Boston: Harvard Business School Press, 1994); and D. Miller, ‘The Architecture of Simplicity’, *Academy of Management Review*, January 1993, pp. 116–38.

5 J. Garner, ‘Get Your Business Carbon Ready’, *BRW*, 14 June 2012.

6 C. Guillot, 'How One CEO Finds Competitive Advantage through Sustainability', *Chief Executive*, 11 July 2017.

7 See, for example, F. Delmar and S. Shane, 'Does Business Planning Facilitate the Development of New Ventures?', *Strategic Management Journal*, December 2003, pp. 1165–85; R. M. Grant, 'Strategic Planning in a Turbulent Environment: Evidence from the Oil Majors', *Strategic Management Journal*, June 2003, pp. 491–517; P. J. Brews and M. R. Hunt, 'Learning to Plan and Planning to Learn: Resolving the Planning School/Learning School Debate', *Strategic Management Journal*, vol. 20 (December 1999), pp. 889–913; C. C. Miller and L. B. Cardinal, 'Strategic Planning and Firm Performance: A Synthesis of More than Two Decades of Research', *Academy of Management Journal*, March 1994, pp. 1649–85; N. Capon, J. U. Farley and J. M. Hulbert, 'Strategic Planning and Financial Performance: More Evidence', *Journal of Management Studies*, January 1994, pp. 22–38; D. K. Sinha, 'The Contribution of Formal Planning to Decisions', *Strategic Management Journal*, October 1990, pp. 479–92; J. A. Pearce II, E. B. Freeman and R. B. Robinson, Jr, 'The Tenuous Link between Formal Strategic Planning and Financial Performance', *Academy of Management Review*, October 1987, pp. 658–75; L. C. Rhyne, 'Contrasting Planning Systems in High, Medium and Low Performance Companies', *Journal of Management Studies*, July 1987, pp. 363–85; and J. A. Pearce II, K. K. Robbins and R. B. Robinson, Jr, 'The Impact of Grand Strategy and Planning Formality on Financial Performance', *Strategic Management Journal*, March–April 1987, pp. 125–34.

8 M. Gruber, F. Heinemann, M. Brettel and S. Hungeling, 'Configurations of Resources and Capabilities and their Performance

Implications: An Exploratory Study on Technology Ventures', *Strategic Management Journal*, December 2010, pp. 1337–56; T. H. Poister, 'The Future of Strategic Planning in the Public Sector: Linking Strategic Management and Performance', *Public Administration Review*, December 2010, pp. S246–54; J. González-Benito and I. Suárez-González, 'A Study of the Role Played by Manufacturing Strategic Objectives and Capabilities in Understanding the Relationship between Porter's Generic Strategies and Business Performance', *British Journal of Management*, vol. 21 (2010), pp. 1027–43; J. A. Parnell and E. B. Dent, 'The Role of Luck in the Strategy–Performance Relationship', *Management Decision*, vol. 47, no. 6 (2009), pp. 1000–21; H. J. Cho and V. Pucik, 'Relationship between Innovativeness, Quality, Growth, Profitability and Market Value', *Strategic Management Journal*, June 2005, pp. 555–75; W. F. Joyce, 'What Really Works', *Organizational Dynamics*, May 2005, pp. 118–29; M. A. Roberto, 'Strategic Decision-Making Processes', *Group & Organization Management*, December 2004, pp. 625–58; A. Carmeli and A. Tischler, 'The Relationships between Intangible Organizational Elements and Organizational Performance', *Strategic Management Journal*, December 2004, pp. 1257–78; D. J. Ketchen, C. C. Snow and V. L. Street, 'Improving Firm Performance by Matching Strategic Decision-Making Processes to Competitive Dynamics', *Academy of Management Executive*, November 2004, pp. 29–43; E. H. Bowman and C. E. Helfat, 'Does Corporate Strategy Matter?', *Strategic Management Journal*, vol. 22 (2001), pp. 1–23; P. J. Brews and M. R. Hunt, 'Learning to Plan and Planning to Learn: Resolving the Planning School–Learning School Debate', *Strategic Management Journal*, vol. 20 (1999), pp. 889–913; D. J.

Ketchen, Jr, J. B. Thomas and R. R. McDaniel, Jr, 'Process, Content and Context; Synergistic Effects on Performance', *Journal of Management*, vol. 22, no. 2 (1996), pp. 231–57; C. C. Miller and L. B. Cardinal, 'Strategic Planning and Firm Performance: A Synthesis of More than Two Decades of Research', *Academy of Management Journal*, December 1994, pp. 1649–65; and N. Capon, J. U. Farley and J. M. Hulbert, 'Strategic Planning and Financial Performance: More Evidence', *Journal of Management Studies*, January 1994, pp. 105–10.

9 'Forbes: The World's Biggest Companies: 2017 Ranking', *Forbes*, **www.forbes.com/companies/ibm**, accessed 13 August 2017.

10 C. K. Prahalad and G. Hamel, 'The Core Competence of the Corporation', *Harvard Business Review*, May–June 1990, pp. 79–91.

11 N. A. Shepherd, 'Competitive Advantage: Mapping Change and the Role of the Quality Manager of the Future', *Annual Quality Congress*, May 1998, pp. 53–60; T. C. Powell, 'Total Quality Management as Competitive Advantage: A Review and Empirical Study', *Strategic Management Journal*, January 1995, pp. 15–37; and R. D. Spitzer, 'TQM: The Only Source of Sustainable Competitive Advantage', *Quality Progress*, June 1993, pp. 59–64.

12 C. H. Green, 'Competitive Theory and Business Legitimacy', *BusinessWeek Online*, 23 June 2010; S. Parthasarathy, 'Business Strategy', *Financial Management*, June 2010, pp. 32–3; M. E. Porter, *On Competition, Updated and Expanded Edition* (Boston: Harvard Business School, 2008); O. Ormanidhi and O. Stringa, 'Porter's Model of Generic Competitive Strategies', *Business Economics*, July 2008, pp. 55–64; M. E. Porter, 'The Five

Competitive Forces that Shape Strategy', *Harvard Business Review*, January 2008, pp. 78–93; N. Argyres and A. M. McGahan, 'Introduction: Michael Porter's Competitive Strategy', *Academy of Management Executive*, May 2002, pp. 41–2; and N. Argyres and A. M. McGahan, 'An Interview with Michael Porter', *Academy of Management Executive*, May 2002, pp. 43–52.

13 S. Robbins, D. DeCenzo, M. Coulter and M. Woods, 'Deloitte Delights in Social Media', in *Management: The Essentials*, 2nd edn (Sydney: Pearson Australia, 2014), p. 321.

14 Sensis, *Sensis Social Media Report 2017*, **https://www.sensis.com.au**, accessed 20 August 2017.

15 B. Acohido, 'Social-Media Tools Boost Productivity', *USA Today*, 13 August 2012, pp. 1B+.

16 A. McAfee and E. Brynjolfsson, 'Big Data: The Management Revolution', *Harvard Business Review*, October 2012, p. 62.

17 Business Victoria, 2020, 'How to Build an Online Community for Your Small Business', https://www.business.vic.gov.au/case-studies/how-to-build-an-online-community-for-your-small-business, accessed 10 May 2020.

18 C. Fitzsimmons, 'Big Data? Big Deal', *BRW*, 10–16 October 2013, pp. 14–22; F. Smith, 'Moneyball – Recruitment's Next Big Thing', *BRW*, 6–12 June 2013, pp. 35–7; and J. Lindhe, 'Numbers Meet Entertainment', *BRW*, 4–10 July 2013, pp. 47–9.

19 M. Rouse, L. Rosencrance, S. Shea and I. Wigmore, 'Internet of Things', **https://internetofthingsagenda.techtarget.com/definition/Internet-of-Things-IoT**, 22 March 2016.

20 R. Marchotorchino, 'Smart City Parking: Harnessing the Power of IoT to Make Urban Life Easier', *Sierrawireless.com*, 7 September

2017.

21 *McDonald's Annual Report 2007*, **www.mcdonalds.com**, accessed 21 April 2008.

22 S. Zesiger Callaway, 'Mr Ghosn Builds His Dream Car', *Fortune*, 4 February 2008, pp. 56–8.

23 See, for example, J. Pfeffer, *Organizational Design* (Arlington Heights, IL: AHM Publishing, 1978), pp. 5–12; and C. K. Warriner, 'The Problem of Organizational Purpose', *Sociological Quarterly*, Spring 1965, pp. 139–46.

24 'About the RFDS', **https://www.flyingdoctor.org.au/about-the-rfds**, accessed 24 May 2020.

25 R. Rodgers and J. E. Hunter, 'Impact of Management by Objectives on Organizational Productivity', *Journal of Applied Psychology*, April 1991, pp. 322–36.

26 Classic Concepts in Today's Organisations box based on P. F. Drucker, *The Practice of Management* (New York: Harper & Row, 1954); J. F. Castellano and H. A. Roehm, 'The Problem with Managing by Objectives and Results', *Quality Progress*, March 2001, pp. 39–46; J. Loehr and T. Schwartz, 'The Making of a Corporate Athlete', *Harvard Business Review*, January 2001, pp. 120–8; and A. J. Vogl, 'Drucker, of Course', *Across the Board*, November–December 2000, p. 1. For information on goals and goal setting, see, for example, E. A. Locke, 'Toward a Theory of Task Motivation and Incentives', *Organizational Behavior and Human Performance*, May 1968, pp. 157–89; E. A. Locke, K. N. Shaw, L. M. Saari and G. P. Latham, 'Goal Setting and Task Performance: 1969–1980', *Psychological Bulletin*, July 1981, pp. 12–52; E. A. Locke and G. P. Latham, *A Theory of Goal Setting and Task Performance* (Upper

Saddle River, NJ: Prentice Hall, 1990); P. Ward and M. Carnes, 'Effects of Posting Self-Set Goals on Collegiate Football Players' Skill Execution during Practice and Games', *Journal of Applied Behavioral Analysis*, Spring 2002, pp. 1–12; D. W. Ray, 'Productivity and Profitability', *Executive Excellence*, October 2001, p. 14; D. Archer, 'Evaluating Your Managed System', *CMA Management*, January 2000, pp. 12–14; and C. Antoni, 'Management by Objectives: An Effective Tool for Teamwork', *International Journal of Human Resource Management*, February 2005, pp. 174–84. For information on participation in goal setting, see, for example, T. D. Ludwig and E. S. Geller, 'Intervening to Improve the Safety of Delivery Drivers: A Systematic Behavioral Approach', *Journal of Organizational Behavior Management*, 4 April 2000, pp. 11–24; P. Latham and L. M. Saari, 'The Effects of Holding Goal Difficulty Constant on Assigned and Participatively Set Goals', *Academy of Management Journal*, March 1979, pp. 163–8; M. Erez, P. C. Earley and C. L. Hulin, 'The Impact of Participation on Goal Acceptance and Performance: A Two Step Model', *Academy of Management Journal*, March 1985, pp. 50–66; and G. P. Latham, M. Erez and E. A. Locke, 'Resolving Scientific Disputes by the Joint Design of Crucial Experiments by the Antagonists: Application to the Erez Latham Dispute Regarding Participation in Goal Setting', *Journal of Applied Psychology*, November 1988, pp. 753–72. For information on effectiveness of MBO, see, for example, F. Dahlsten, A. Styhre and M. Williander, 'The Unintended Consequences of Management by Objectives: The Volume Growth Target at Volvo Cars', *Leadership & Organization Development Journal*, July 2005, pp. 529–41; J. R. Crow, 'Crashing with the Nose Up: Building a Cooperative Work Environment', *Journal*

for Quality and Participation, Spring 2002, pp. 45–50; and E. C. Hollensbe and J. P. Guthrie, 'Group Pay-for-Performance Plans: The Role of Spontaneous Goal Setting', *Academy of Management Review*, October 2000, pp. 864–72; P. N. Romani, 'MBO by Any Other Name is Still MBO', *Supervision*, December 1997, pp. 6–8; A. W. Schrader and G. T. Seward, 'MBO Makes Dollar Sense', *Personnel Journal*, July 1989, pp. 32–7; and 'Management by Objectives', *The Economist*, 21 October 2009.

27 G. P. Latham, 'The Motivational Benefits of Goal-Setting', *Academy of Management Executive*, November 2004, pp. 126–9.

28 For additional information on goals, see, for example, P. Drucker, *The Executive in Action* (New York: HarperCollins Books, 1996), pp. 207–14; and E. A. Locke and G. P. Latham, *A Theory of Goal Setting and Task Performance* (Upper Saddle River, NJ: Prentice Hall, 1990).

29 I. Sample, 'Mars One Mission: A One-way Trip to the Red Planet in 2024', *The Guardian*, 9 February 2015.

30 Several of these factors were suggested by R. K. Bresser and R. C. Bishop, 'Dysfunctional Effects of Formal Planning: Two Theoretical Explanations', *Academy of Management Review*, October 1983, pp. 588–99; and J. S. Armstrong, 'The Value of Formal Planning for Strategic Decisions: Review of Empirical Research', *Strategic Management Journal*, July–September 1982, pp. 197–211.

31 K. Garber, 'Powering the Information Age', *U.S. News & World Report*, April 2009, pp. 46–8; and S. Hamm, 'It's Too Darn Hot', *BusinessWeek*, 31 March 2008, pp. 60–3.

32 A. Campbell, 'Tailored, Not Benchmarked: A Fresh Look at Corporate Planning', *Harvard Business Review*, March–April 1999, pp. 41–50.

33 Managing for Diversity and Inclusion box based upon M. Wiersema and M. L. Mors, 'What Board Directors Really Think of Gender Quotas', *Harvard Business Review*, 16 November 2016; A. Klettner, T. Clarke and M. Boersma, 'Strategic and Regulatory Approaches to Increasing Women in Leadership: Multilevel Targets and Mandatory Quotas as Levers for Cultural Change', *Journal of Business Ethics*, vol. 133 (2014), pp. 395–419; and A. Klettner, T. Clarke and M. Boersma, 'The Impact of Soft Law on Social Change: Measurable Objectives for Achieving Gender Diversity on Boards of Directors', *Australian Journal of Corporate Law*, vol. 28 (2013), pp. 138–65.

34 S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2009).

35 For additional information on critical path method, see W. A. Haga and K. A. Marold, 'A Simulation Approach to the PERT/CPM Time–Cost Trade-off Problem', *Project Management Journal*, June 2004, pp. 31–7.

36 P. J. Brews and M. R. Hunt, 'Learning to Plan and Planning to Learn: Resolving the Planning School/Learning School Debate', *Strategic Management Journal*, vol. 20 (December 1999), pp. 889–913.

37 A. Taylor III, 'Hyundai Smokes the Competition', *Fortune*, 18 January 2010, pp. 62–71.

38 M. Butler, S. Menkes and M. Michel, 'Being Ready for a Crisis', *Strategy+BusinessOnline*, 18 May 2017.

39 See, for example, P. Tarraf and R. Molz, 'Competitive Intelligence', *SAM Advanced Management Journal*, Autumn 2006, pp. 24–34; W. M. Fitzpatrick, 'Uncovering Trade Secrets: The Legal and Ethical Conundrum of Creative Competitive Intelligence', *SAM Advanced Management Journal*, Summer 2003, pp. 4–12; L. Lavelle, 'The Case of the Corporate Spy', *BusinessWeek*, *26* November 2001, pp. 56–8; C. Britton, 'Deconstructing Advertising: What Your Competitor's Advertising Can Tell You about Their Strategy', *Competitive Intelligence*, January/February 2002, pp. 15–19; and L. Smith, 'Business Intelligence Progress in Jeopardy', *InformationWeek*, 4 March 2002, p. 74.

40 S. Greenbard, 'New Heights in Business Intelligence', *Business Finance*, March 2002, pp. 41–6; K. A. Zimmermann, 'The Democratization of Business Intelligence', *KN World*, May 2002, pp. 20–1; and C. Britton, 'Deconstructing Advertising: What Your Competitor's Advertising Can Tell You about Their Strategy', *Competitive Intelligence*, January–February 2002, pp. 15–19.

41 C. Hausman, 'Business-Ethics News Featured in World-Press Reports', *Ethics Newsline*, 14 March 2011; and L. Weathersby, 'Take This Job and ***** It', *Fortune*, *7* January 2002, p. 122.

42 K. Western, 'Ethical Spying', *Business Ethics*, September–October 1995, pp. 22–3.

43 A. Taylor III, 'Double Duty', *Fortune*, 7 March 2005, pp. 104–10.

44 Unilever, 'The Sustainable Living Plan', **http://unilever.com**, accessed 19 March 2017; Unilever, 'Water Use', **www.unilever.com**, accessed 26 October 2017; Unilever, 'Change Consumer Behavior', **www.unilever.com**, accessed 26 October 2017; Unilever, 'Water

Use', **https://www.unilever.com/sustainable-living/reducing-environmental-impact/water-use**, accessed 6 May 2020.

Chapter 7 Organisational structure and design

Fact or fiction?

Bureaucracies are inefficient.

Fiction

People commonly assume that bureaucracies – or mechanistic structures – are inefficient. Critics claim these organisations are slow, rule-bound and have too much ‘red tape’. The media makes you think bureaucracies are extinct – replaced by empowered teams and loosely structured and adaptive organisations. Although many organisations today do look like that, the truth is that ***bureaucracies are still alive and well***. Most medium-sized and large organisations are structured as a bureaucracy because its traits – specialisation, formal rules and regulations, clear chain of command and departmentalisation – help to structure people and tasks efficiently.

Welcome to the fascinating world of organisational structure and design in the 21st century! In this chapter, we present the basics of organising. We define the concepts and their key components, and explain how managers use these to create a structured environment in which organisational members can do their work efficiently and effectively. Once the organisation's goals, plans and strategies are in place, managers must develop a structure that will best facilitate the attainment of those goals.

Learning outcomes

7.1 Describe six key elements in organisational design.
7.2 Compare and contrast the mechanistic and organic organisational forms.
7.3 Identify the contingency factors that affect choice of organisational structure.
7.4 Compare and contrast traditional and contemporary organisational designs.
7.5 Discuss the design challenges faced by today's organisations.

Holacracy: Who needs a boss?

When Tony Hsieh converted Zappos into a holacracy, he intended it would foster more creativity, initiative and trust within his organisation.

Bloomberg/Getty Images

If you've ever worked in (or with) a bureaucracy, you might have concluded that all those organisational levels, and rules and titles and roles, sometimes get in the way of getting things done. Tony Hsieh, the CEO of online clothing and shoes retailer Zappos, drew the same conclusion, announcing in 2014 that he was eliminating the company's traditional managerial and structural hierarchy to implement a holacracy. A holacracy is an organisational system with no job titles, no managers, and no top-down hierarchy of upper, middle and lower levels of decision-making authority. Its name derives from the Greek word *holos*, a single autonomous, self-sufficient unit that's also dependent on a larger unit.[1] It functions as an organisational system in which employees work as partners, job descriptions function as roles and partners organise themselves into circles.[2] The focus is on the work that needs to be done, and the idea is that in such a free-form structure great ideas can be generated anywhere by anyone without getting lost in the managerial hierarchy.

At Zappos the holacracy structure saw 1,500 workers organised into around 400 self-governing employee circles in which both group membership and individual roles and responsibilities are very fluid. In these circles, anyone can initiate a project or implement innovative ideas. Employees can take on any number of roles, and the expectation is that any employee will help out wherever they can. The goal is radical transparency and to have more organisational members take charge of ideas and initiatives. It's a structure that depends on trust and the belief that individuals who know the details of their jobs very well can work creatively, conscientiously and efficiently. The risk, though, is that standards may fall if they are not reinforced.

Taking risks is 'business as usual' for Zappos and for Hsieh, who has always approached leading his business in unique and radical ways. He strongly believes in the power of the individual and has created a highly successful organisation (which is now part of Amazon) that is known for its zany culture, where personal values are matched with corporate values and where 'weirdness and humility' are celebrated.[3] But transforming into a holacracy presented some challenges. Although a holacracy isn't managed in the traditional way, it still operates as a system with structure and accountability. For instance, 'the broadest circles can to some extent tell sub-groups what they're accountable for doing'.[4] But accountability, rather than flowing only up, will flow throughout the organisation in different paths. Leadership is expected in every role. 'Everyone is expected to lead and be an entrepreneur in

their own roles, and holacracy empowers them to do so.'[5] Some individuals will have a bigger role and scope of responsibility. But this can also cause other employees to become resentful or to rebel. Other challenges of a holacracy include deciding who has the authority to hire, fire and decide pay.

When Zappos originally adopted the holacracy approach, the transition was certainly not a smooth one. In fact, in early 2015 Hsieh sent a memo to employees stating that the transition was taking too long.[6] He offered all employees who felt they couldn't work under the new structure just over one month to decide whether they would stay, or leave with three months' severance pay. About 18 per cent of the company's workforce chose to leave. Those who remained have experienced a constant pace of change[7] and a mixture of reactions to the new approach. Some feel that the structure has allowed their voices to be heard and given them the opportunity to take on more substantive roles. Others have felt confused and demoralised.

What are the six key elements in organisational design?

> Learning outcome 7.1 Describe six key elements in organisational design.

Organising is all about getting work done efficiently and effectively. Recall that we earlier defined **organising** as the function of management that determines how work will be arranged and undertaken to achieve the organisation's goals. Decisions about what tasks will be done, and by whom, create the organisation's structure. When managers develop or change the organisation's structure, they're engaging in **organisational design**. This process involves making decisions about how specialised jobs should be, the rules to guide employees' behaviours and at what level decisions are to be made. Although organisational design decisions are typically made by top-level managers, it's important for everyone involved to understand the process because each of us works in some type of organisational structure, and we need to know how and why things get done. In addition, given the changing environment and the need for organisations to adapt, you should understand what tomorrow's structures may look like as those will be the settings you'll be working in or using in your own business.

organising

The function of management that creates the organisation's structure

organisational design

When managers develop or change the organisation's structure

Few topics in management have undergone as much change in the past few years as that of organising and organisational structure. Managers are re-evaluating traditional approaches and exploring new structural designs that best support and facilitate employees doing the organisation's work – designs that can achieve efficiency but are also flexible.

The basic concepts of organisational design formulated by classic management writers such as Henri Fayol and Max Weber offered structural principles for managers to follow (see the appendix to the text). Over 90 years have passed since many of those principles were originally proposed. Given that length of time and all the changes that have taken place, you would think that those principles would be mostly worthless today. Surprisingly, they're not. They still provide valuable insights into designing effective and efficient

organisations. Of course, since then we've also gained a great deal of knowledge about how to build on their ideas. In the following sections, we discuss the *six basic elements of organisational structure*: work specialisation, departmentalisation, authority and responsibility, span of control, centralisation versus decentralisation, and formalisation.

What is work specialisation?

Traditional view

Work specialisation is dividing work activities into separate job tasks. (That's why it's also known as division of labour.) Individual employees 'specialise' in doing part of an activity, rather than the entire activity, in order to increase work output.

> ***work specialisation***
>
> Dividing work activities into separate job tasks; also called division of labour

Work specialisation allows organisations to efficiently use the diversity of skills that workers have. In most organisations, some tasks require highly developed skills; others can be performed by employees with lower skill levels. Work specialisation makes efficient use of workers' diverse skills, because tasks and rewards are allocated according to those skills. Low-skill tasks are performed by low-skill workers, while more sophisticated tasks are performed by higher-skilled employees. Higher-skilled workers usually earn higher

wages, so using them only for tasks that require their higher skills is also financially efficient. This explains why you rarely find a cardiac surgeon closing up a patient after surgery. Once the surgeon has finished the surgery, student doctors who are learning open-heart surgery stitch and staple the patient. This way, the surgeon and student doctors each contribute the best of their knowledge and skills, and by delegating the tasks that don't require the surgeon's expertise to other doctors the surgeon can save time and energy for other patients.

A cardiac surgeon finishes a surgical procedure and hands over to other members of the medical team to stitch and staple the patient. Hospitals use work specialisation in dividing job activities as an organising mechanism that helps employees boost their productivity and makes efficient use of workers' diverse skills.

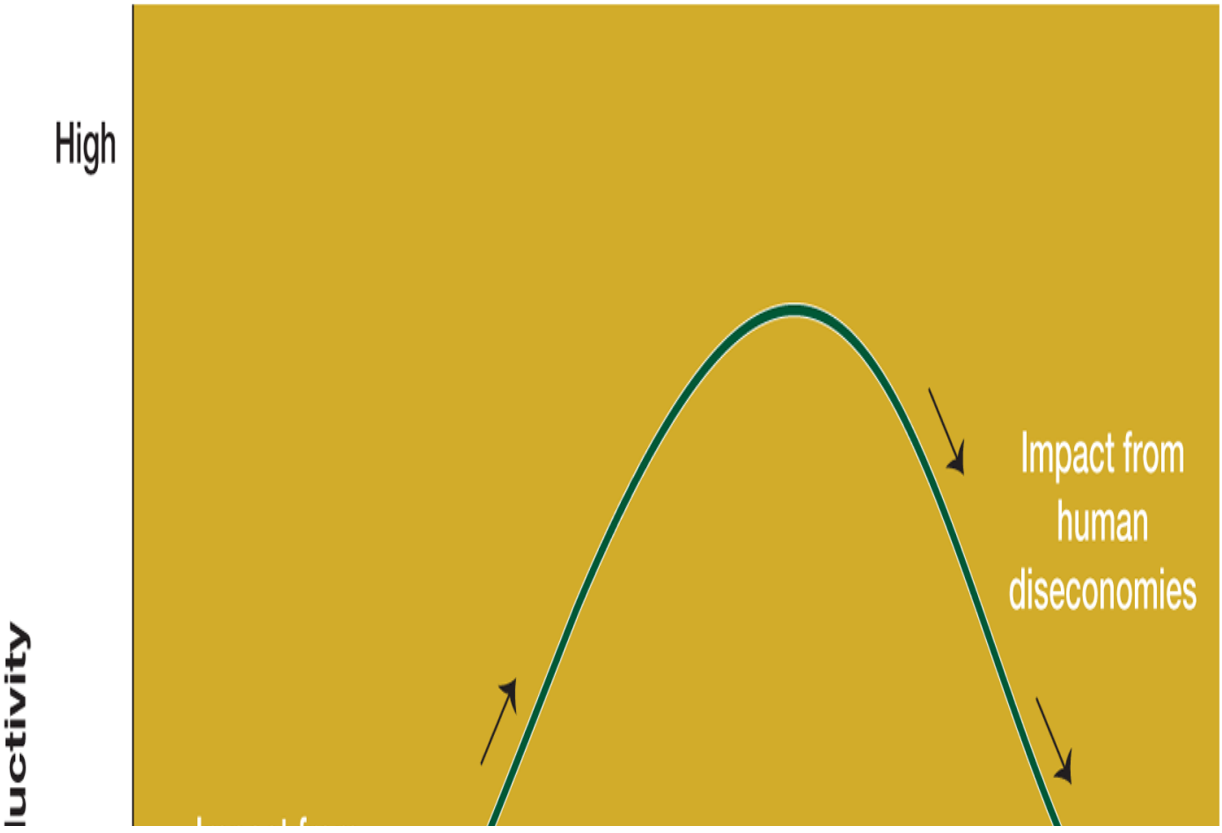
Franck Boston/Shutterstock

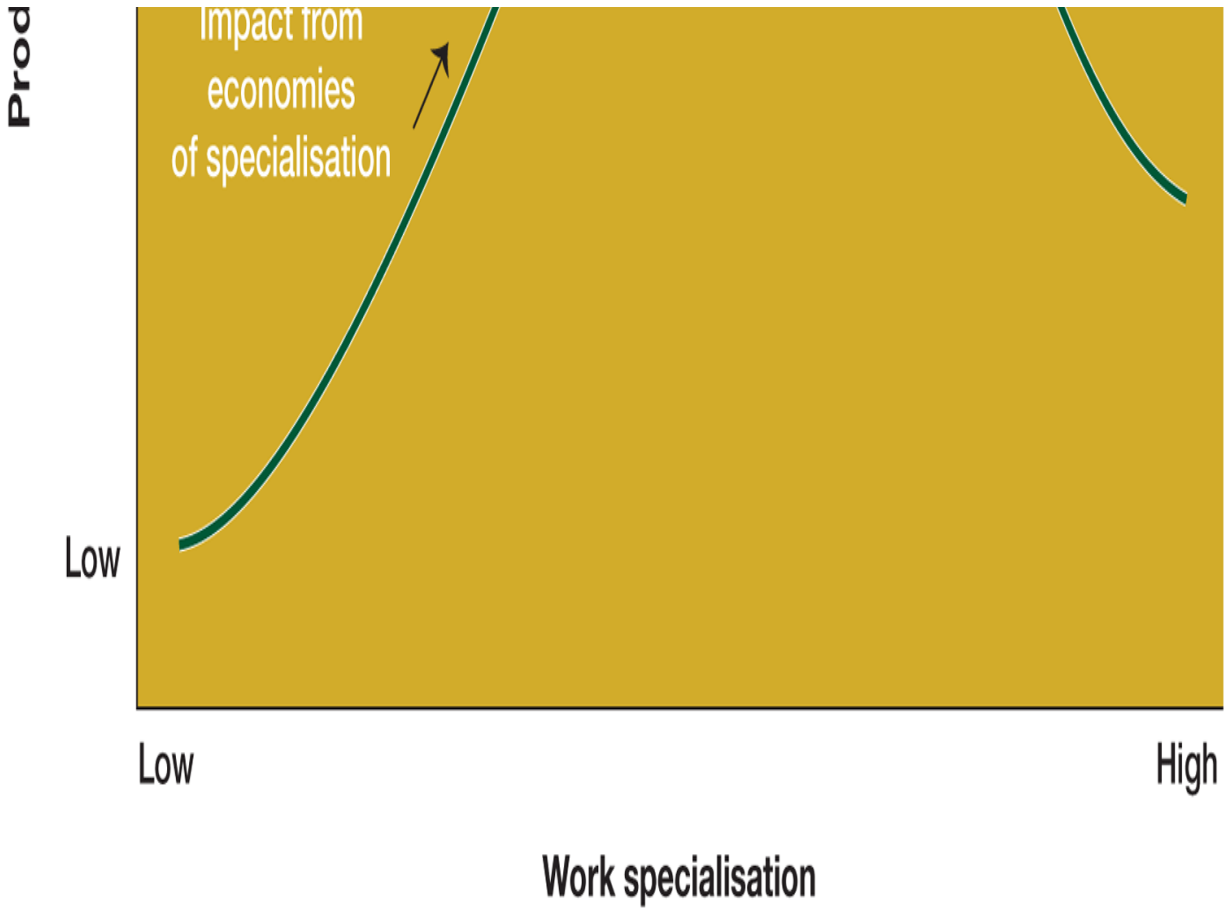
Early proponents of work specialisation believed that it could lead to great increases in productivity. At the beginning of the 20th century, that generalisation was reasonable. Because specialisation wasn't widely practised, its introduction almost always generated higher productivity. For example, when Henry Ford used the division of labour to implement assembly lines for the Model T Ford, it reduced the production time for each car from 106 hours to 6 hours.[8]

Today's view

Most managers today see work specialisation as an important organising mechanism because it helps employees be more efficient. For example, McDonald's uses high specialisation to get its products made and delivered to customers efficiently. However, managers also have to recognise the limitations of specialisation. At some point, the routine and repetitive nature of work that results from division of labour causes boredom, fatigue, stress, low productivity, poor quality, increased absenteeism and high turnover, and exceeds the economic advantages (see **Figure 7.1**).[9] So, managers have to think carefully about how they can design jobs to allow employees to focus on what they are good at without getting bored and demotivated. We talk more about this in the chapter on motivating and rewarding employees, where we consider how job design can affect motivation.

Figure 7.1 Economies and diseconomies of work




Prod
Impact from
economies
of specialisation
Low
Low
High
Work specialisation

What is departmentalisation?

Traditional view

Early management writers argued that after deciding what job tasks will be done by whom, common work activities needed to be grouped back together so that work was done in a coordinated and integrated way. How jobs are grouped together is called **departmentalisation**. There are five common forms (see **Table 7.1**), although an organisation may use its own unique classification. No single method of departmentalisation was advocated by the early writers. The method or methods used would reflect the grouping that best contributed to the attainment of the goals of the organisation and the individual units.

Table 7.1 Types of departmentalisation

departmentalisation
How jobs are grouped together

> How are activities grouped?

1. One of the most popular ways to group activities is by functions performed, or **functional departmentalisation**. A manager might organise the workplace by separating engineering, accounting, information systems, human resources and purchasing specialists into departments. Functional departmentalisation can be used in all types of organisations. Only the functions change to reflect the organisation's objectives and activities. The main advantage of functional departmentalisation is the achievement of economies of scale by placing people with common skills and specialisations into common units.

> ***functional departmentalisation***
> Grouping activities by functions performed

2. **Product departmentalisation** focuses attention on major product areas in the corporation. Each product is under the authority of a senior manager who is a specialist in, and is responsible for, everything having to do with their product line. One company that uses product departmentalisation is Nike. Its structure is based on its varied product lines, which include athletic and dress/casual footwear, sports apparel and accessories, and performance equipment. If an organisation's

activities were service related rather than product related, each service would be autonomously grouped. The advantage of product grouping is that it increases accountability for product performance, because all activities related to a specific product are under the direction of a single manager.

product departmentalisation
Grouping activities by major product areas

3. The particular type of customer an organisation seeks to reach can also dictate employee grouping. The sales activities in an office supply firm, for example, can be divided into three departments that serve retail, wholesale and government customers. A large law firm can segment its staff on the basis of whether it serves corporate or individual clients. The assumption underlying **customer departmentalisation** is that customers in each department have a common set of problems and needs that can best be met by specialists.

customer departmentalisation
Grouping activities by customer

4. Another way to departmentalise is on the basis of geography or territory – **geographic departmentalisation**. If an organisation's customers are scattered over a large geographic area, this form of departmentalisation can be valuable because it provides the flexibility needed to deal with diverse environments. Geographic departmentalisation means each department can focus on the conditions and operational requirements suited to its own area, improving responsiveness to local conditions. For example, the organisational structure of Coca-Cola reflects the company's operations in two broad geographic areas – the North American sector and the international sector (which includes the Pacific Rim, the European Community, Northeast Europe, Africa and Latin America).

geographic departmentalisation
Grouping activities on the basis of geography or territory

5. The final form of departmentalisation is called **process departmentalisation**, which groups activities on the basis of work or customer flow – like that found in many government

offices or in health-care clinics. Units are organised around common skills needed to complete a certain process. If you have ever been to a hospital for a medical procedure, you've probably experienced process departmentalisation. Separate departments handle admissions, the collection of tissue samples such as blood and bone marrow, the surgery itself and post-operative recovery, and patients 'flow' through the various departments in sequence.

process departmentalisation
Grouping activities on the basis of work or customer flow

Today's view

Most large organisations continue to use most or all of the departmental groups suggested by the early management writers. Black & Decker, for example, organises its divisions along functional lines, its manufacturing units around processes, its sales around geographic regions, and its sales regions around customer groupings. However, many organisations use **cross-functional teams**, which are teams made up of individuals from various departments and that cross traditional departmental lines. These teams have been

especially useful as tasks have become more complex and diverse skills are needed to accomplish them.[10]

cross-functional teams

Teams made up of individuals from various departments that cross traditional departmental lines

Also, today's competitive environment has refocused the attention of management on its customers. To better monitor the needs of customers and to be able to respond to changes in those needs, many organisations are giving greater emphasis to customer departmentalisation.

What are authority and responsibility?

Authority refers to the rights inherent in a managerial position to give orders and expect them to be obeyed. Authority was a major concept discussed by the early management writers as they viewed it as the glue that held an organisation together.[11] It was delegated downwards to lower-level managers, giving them certain rights while prescribing certain limits within which to operate. Each management position had specific inherent rights that incumbents acquired from the position's rank or title. Authority, therefore, is related to one's position within an organisation and has nothing to do with the personal characteristics of an individual manager. When a position of authority is vacated, the person who has left the position no longer has any authority. The authority remains with the position and its new incumbent.

authority

The rights inherent in a managerial position to give orders and expect them to be obeyed

When managers delegate authority, they must allocate commensurate **responsibility**. That is, when employees are given rights, they also assume a corresponding obligation to perform. And they'll be held accountable for their performance! Allocating authority without responsibility and accountability creates opportunities for abuse. Likewise, no one should be held responsible or accountable for something over which they have no authority.

responsibility
An obligation to perform assigned duties

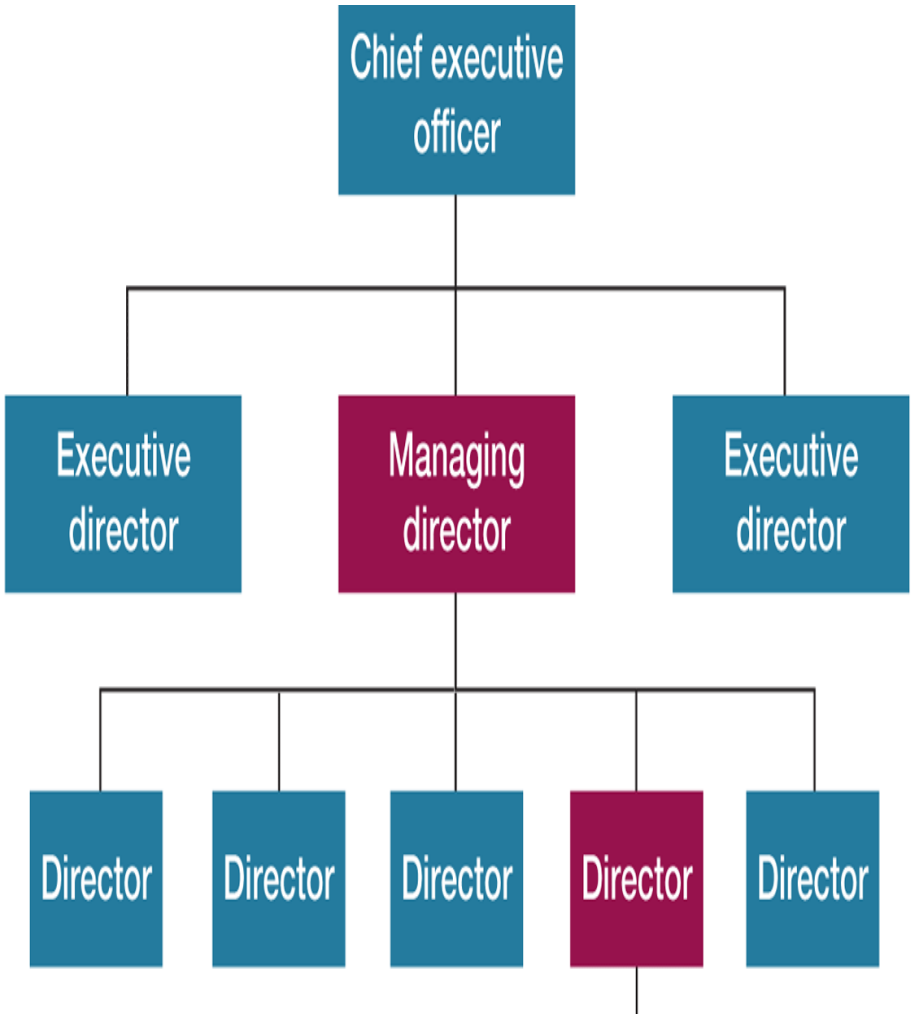
> **Authority comes from the position**, not the person.

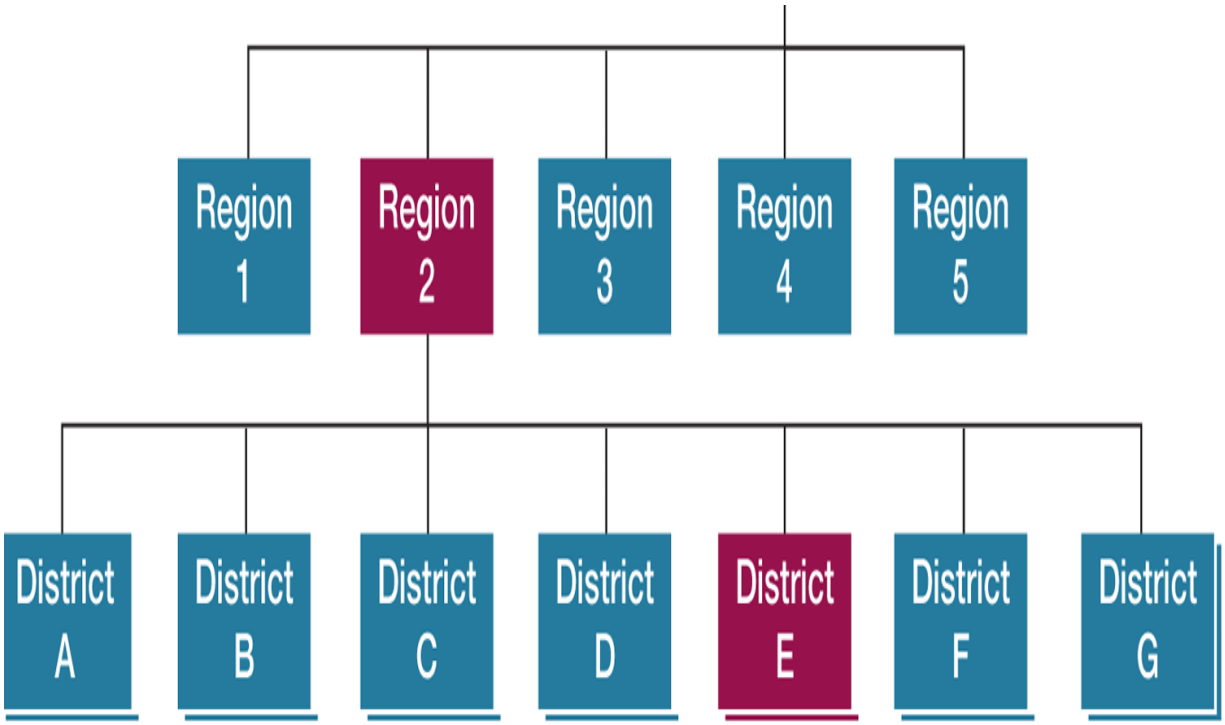
What are the different types of authority relationships?

To understand authority and responsibility, you also have to be familiar with the **chain of command**, the line of authority extending from upper organisational levels to lower levels, which clarifies who reports to whom. Managers need to consider the chain of command when organising work because it helps employees with questions such as 'Who do I report to?' or 'Who do I go to if I have a problem?' The early management writers distinguished between two forms of

authority: line authority and staff authority. **Line authority** entitles a manager to direct the work of an employee. It's the employer–employee authority relationship that extends from the top of the organisation to the lowest echelon, according to the chain of command. Line authority relationships are depicted in **organisational charts**, as shown in **Figure 7.2**. As a link in the chain of command, a manager with line authority has the right to direct the work of employees and to make certain decisions without consulting anyone. Of course, in the chain of command, every manager is also subject to the direction of their superior.

Figure 7.2 Chain of command and line authority





chain of command

The line of authority extending from upper organisational levels to lower levels, which clarifies who reports to whom

line authority

Authority that entitles a manager to direct the work of an employee

organisational chart

A pictorial illustration of an organisational structure

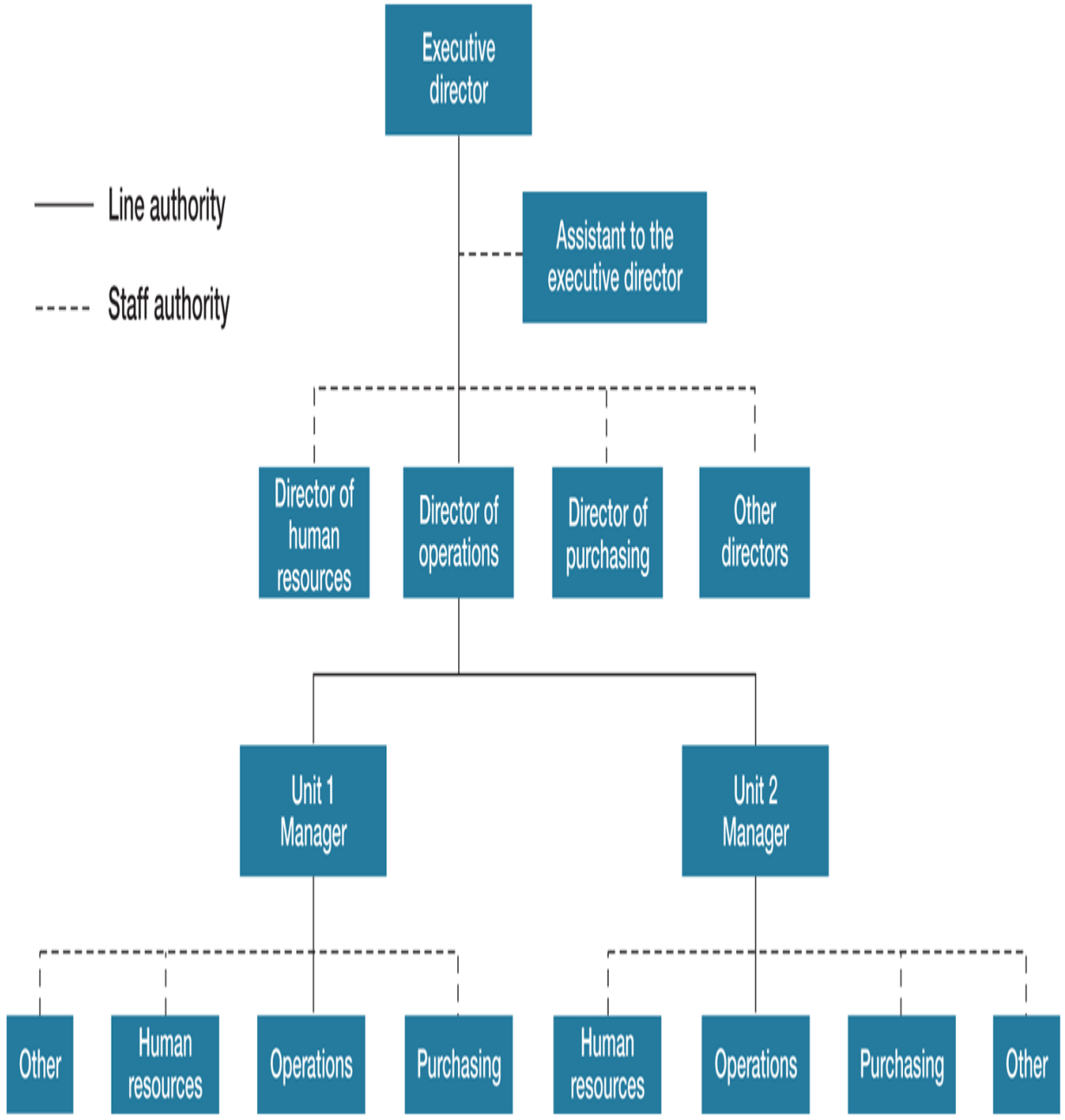
Keep in mind that sometimes the term *line* is used to differentiate line managers from staff managers. In this context, *line* refers to managers whose organisational function contributes directly to the achievement of organisational objectives. In a manufacturing firm, line managers are typically in the production and sales functions, whereas managers in human resources and payroll are considered staff managers with staff authority. Whether a manager's function is classified as line or staff depends on the organisation's objectives.

Zhang Ruimin is the chairman and CEO of Haier Group, a Chinese manufacturer of home appliances. After taking over a failing refrigerator plant, Ruimin reorganised the company into project teams that were comprised of members from different divisions and focused on producing quality products based on customer needs. The new structure helped Haier return to profitability, compete globally, and achieve the highest sales volume of home appliances of any company in the world.

VCG/Getty Images

As organisations grow larger and more complex, line managers may find that they don't have the time, expertise or resources to get their jobs done effectively. In response, they create **staff authority** functions to support, assist, advise and generally reduce some of their informational burdens. For example, the hospital administrator who is overburdened with administrative tasks might create a new staff position – administrative assistant – to provide support and perform simple tasks. **Figure 7.3** illustrates line and staff authority.

Figure 7.3 Line versus staff authority



staff authority

Positions with some authority that have been created to support, assist and advise those

holding line authority

What is unity of command?

An employee who has to report to two or more bosses might have to cope with conflicting demands or priorities.[12] Accordingly, the early writers believed that each employee should report to only one manager, a term called **unity of command**. In those rare instances when the unity of command had to be violated, a clear separation of activities and a supervisor responsible for each was always explicitly designated.

unity of command

The management principle that no person should report to more than one boss.

> One boss **or more**?

Unity of command was logical when organisations were relatively simple. Under some circumstances, it's still sound advice and organisations continue to adhere to it. But advances in technology, for example, now allow access to organisational information that was once accessible only to top managers. And employees can interact

with anyone else in the organisation without going through the formal chain of command. Thus, in some instances, strict adherence to unity of command creates a degree of inflexibility that hinders an organisation's performance.

Today's view

The early management writers assumed that the rights inherent in an individual's formal position in an organisation were the sole source of influence, and they believed that managers were all-powerful. This assumption might have been true 60 – even 30 – years ago. Organisations were simpler then. Staff was less important. Managers were only minimally dependent on technical specialists. Under such conditions, influence is the same as authority. And the higher a manager's position in the organisation, the more influence they had. However, *those conditions no longer exist*. Researchers and practitioners of management now recognise that you don't have to be a manager to have power and that power isn't perfectly correlated with an individual's level in the organisation.

Authority is an important concept in organisations, but an exclusive focus on authority produces a narrow, unrealistic view of influence. Today, we recognise that *authority is only one element in the larger concept of power.*

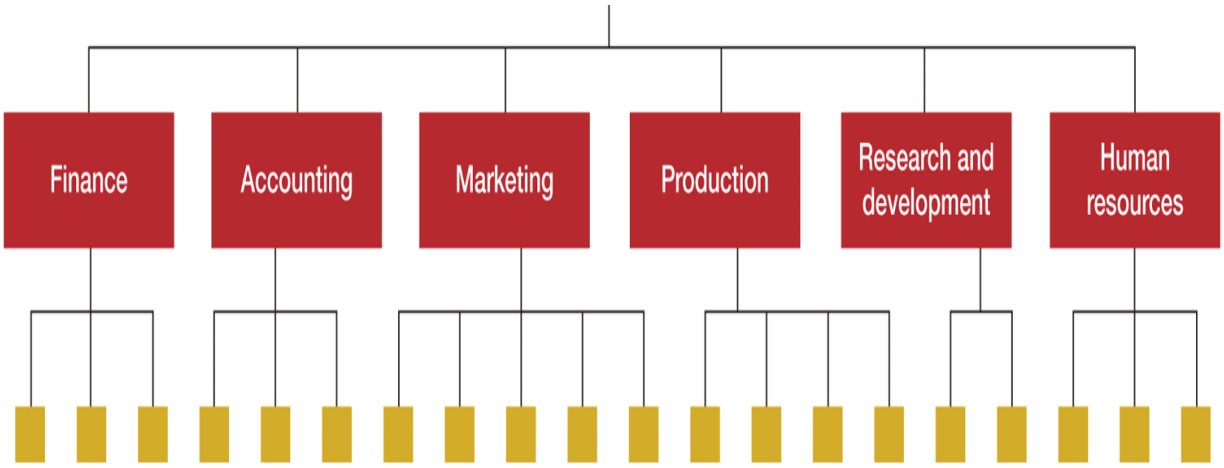
How do authority and power differ?

Authority and power are often considered the same thing, but they're not. Authority is a right. Its legitimacy is based on an authority figure's position in the organisation. Authority goes with the job. **Power**, on the other hand, refers to an individual's capacity to influence decisions. Authority is part of the larger concept of power. That is, the formal rights that come with an individual's position in the organisation are just one means by which they can affect the decision process.

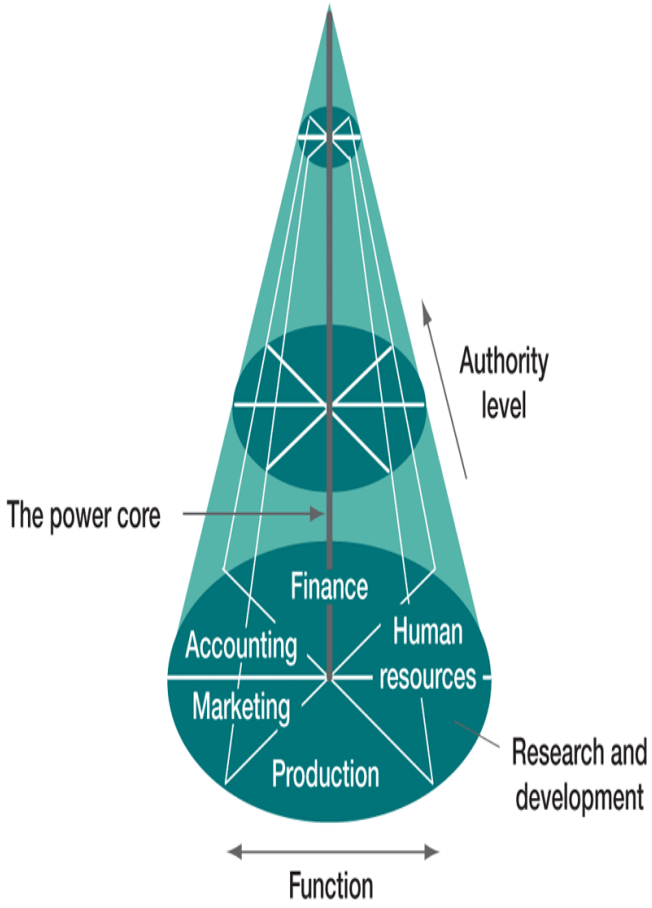
power
An individual's capacity to influence decisions

Figure 7.4 visually depicts the difference between authority and power. The two-dimensional arrangement of boxes in part A portrays authority. The area in which the authority applies is defined by the horizontal dimension. Each horizontal grouping represents a functional area. The influence an individual holds in the organisation is defined by the vertical dimension in the structure. The higher they are in the organisation, the greater their authority.

Figure 7.4 Authority versus power


Finance
Accounting
Marketing
Production
Research and development
Human resources

B. Power


Authority level
The power core
Finance
Accounting
Human resources
Marketing
Production
Research and development
Function

Power, on the other hand, is a three-dimensional concept (the cone in part B of **Figure 7.4**). It includes not only the functional and hierarchical dimensions, but also a third dimension called centrality. Although authority is defined by an individual's vertical position in the hierarchy, power is made up of both their vertical position and their distance from the organisation's power core or centre.

Think of the cone in the figure as an organisation. The centre of the cone is the power core. The closer you are to the power core, the more influence you have on decisions. The existence of a power core is, in fact, the only difference between parts A and B in the figure. The vertical hierarchy dimension in part A is merely the individual's level on the outer edge of the cone. The top of the cone corresponds to the top of the hierarchy, the middle of the cone to the middle of the hierarchy, and so on. Similarly, the functional groups in part A become wedges in the cone. Each wedge represents a functional area.

The cone analogy explicitly acknowledges two facts: (1) the higher an individual moves in an organisation (an increase in authority), the closer they move to the power core; and (2) it's not necessary to have authority in order to wield power, because an individual can move horizontally inward towards the power core without moving up. For example, assistants often are powerful in a company even though they have little authority. As gatekeepers for their bosses, these assistants have considerable influence over who gets to see their bosses and when. Furthermore, because they're regularly relied upon to pass information on to their bosses, they have some control over what their bosses hear. It's not unusual for a $105,000-a-year middle

manager to tread carefully in order not to upset the boss's $45,000-a-year administrative assistant. This is because the assistant has power. They may be low in the authority hierarchy but close to the power core.

Likewise, low-ranking employees who have relatives, friends or associates in high places might also be close to the power core. So, too, are employees with scarce and important skills. For instance, when a customer brings a classic car in to be repaired, the apprentice who has previously restored the same type of car might be the only employee who knows how to do the repairs that are needed. Suddenly, the apprentice's importance and influence are much greater than it would appear from their level in the vertical hierarchy. What do these examples tell us about power? They indicate that power can come from different areas. French and Raven identified five sources, or bases, of power: coercive, reward, legitimate, expert and referent.[13] We summarise them in **Table 7.2**.

Table 7.2 Types of power

What is span of control?

Span of control refers to the number of employees reporting to a manager. It determines how closely a manager can monitor employees.[15] The question of how many employees a manager can efficiently and effectively supervise received a great deal of attention from early management writers. Although they came to no consensus on a specific number, most favoured small spans – typically, no more than six workers – in order to maintain close control.[16] However, several writers did acknowledge level in the organisation as a contingency variable. They argued that as a manager rises in an organisation, they have to deal with a greater number of unstructured problems, so top managers need a smaller span than do middle managers, and middle managers require a smaller span than do supervisors. Over the last few decades, however, we've seen some change in theories about effective spans of control.[17]

span of control

The number of employees a manager can efficiently and effectively supervise

COTTON:ON
AFL
nab W
Harvey Norman
Sydney Airport
COTTON:ON
SHERRIN

As the head of the national Women's Australian Football League (AFLW), Nicole Livingstone (shown here with Giants players Alicia Eva and Jessica Dal Pos) has expert power as an experienced sports administrator, legitimate power as the CEO of the league, and referent power as a three-time Olympic swimming medallist. She is leading the Women's AFL towards growth and financial sustainability by leveraging her experiences as an elite athlete, sports commentator and former member of the Australian Olympic Committee.[14]

Ben Rushton/AAP

Today's view

Many organisations are increasing their spans of control by reducing the number of managers they employ and making each remaining manager responsible for overseeing more employees. This has meant they can reduce the number of managerial staff in their organisations and thus reduce costs. For this reason, reducing managerial staff and increasing spans of control is a common strategy for dealing with economic downturns. The span of control is increasingly being determined by looking at contingency factors.

> ### How many people can I manage **effectively and efficiently**?

The most effective and efficient span depends on contingency factors such as:

- employee experience and training (the more they have, the larger the span)
- similarity of employee tasks (the more similarity, the larger the span)
- complexity of those tasks (the more complex, the smaller the span)
- physical proximity of employees (the closer the proximity, the larger the span)
- amount and type of standardised procedures (the more standardised, the larger the span)
- sophistication of the organisation's management information system (the more sophisticated, the larger the span)

  strength of the organisation's value system (the stronger the value system, the larger the span)
- preferred managing style of the manager[18] (personal preference of more or fewer employees to manage).

How do centralisation and decentralisation differ?

Traditional view

One of the questions that needs to be answered when organising is: 'At what level are decisions made?' **Centralisation** is the degree to which decision making takes place at upper levels of the organisation. **Decentralisation** is the degree to which lower-level managers provide input or actually make decisions. Centralisation–decentralisation isn't an either–or concept. Rather, it's a matter of degree. What we mean is that no organisation is completely centralised or completely decentralised. Few, if any, organisations could effectively function if all their decisions were made by a select few people (centralisation) or if all decisions were pushed down to the level closest to the problems (decentralisation). Let's look, then, at how the early management writers viewed centralisation, as well as at how it exists today.

centralisation

The degree to which decision making takes place at upper levels of the organisation

decentralisation

The degree to which lower-level managers provide input or actually make decisions

A question of ethics: Deciding what, and when, to disclose

You manage a team that handles all of the recruitment processes for your organisation. You were told in a management meeting last week that your team is going to be relocated interstate and incorporated into another department. Because the company wants to be able to monitor your team's performance more closely, the move will also mean you and your team will now report to a new department head. For competitive reasons, the organisation won't be announcing these plans for another month.

One of your employees has just told you they have heard that the team won't be part of their current department 'for much longer'. Rumour has it that the team will be made redundant, and your employee wants to know if they are likely to lose their current job and should start looking for new employment.

Discuss this

- What ethical issues might arise when an organisation wants to restructure its operations?
- What are the implications for (a) managers, and (b) employees?

Early management writers proposed that centralisation in an organisation depended on the situation.[19] Their goal was the optimum and efficient use of employees. Traditional organisations were structured in a pyramid, with power and authority concentrated near the top of the organisation. Given this structure, historically, centralised decisions were the most prominent, but organisations today have become more complex and responsive to dynamic changes in their environments. As such, many managers believe that decisions need to be made by those individuals closest to the problems, regardless of their organisational level.

Today's view

Today, managers often choose the amount of centralisation or decentralisation that will allow them to best implement their decisions and achieve organisational goals.[20] What works in one organisation, however, won't necessarily work in another, so managers must determine the amount of decentralisation for each organisation and the work units within it. Decentralisation means empowering employees and delegating to them the authority to make decisions on those things that affect their work and to change the way they think about work. But it also means training employees effectively in how to handle those new responsibilities and ensuring that they clearly understand what they have authority to do and how to do it well.

What is formalisation?

Traditional view

Formalisation refers to how standardised an organisation's jobs are and the extent to which employee behaviour is guided by rules and procedures. Highly formalised organisations have explicit job descriptions, numerous organisational rules and clearly defined procedures covering work processes. Employees have little discretion over what's done, when it's done and how it's done. However, where formalisation is low, employees have more discretion in how they do their work. Early management writers expected organisations to be fairly formalised, as formalisation went hand-in-hand with bureaucratic-style organisations.

> ***formalisation***
>
> How standardised an organisation's jobs are and the extent to which employee behaviour is guided by rules and procedures

Today's view

Although some formalisation is necessary for consistency and control, many organisations today rely less on strict rules and standardisation to guide and regulate employee behaviour.

Considering there are numerous situations where rules may be too restrictive, many organisations have allowed employees some latitude, giving them sufficient autonomy to make those decisions that they feel are best under the circumstances. It doesn't mean throwing out all organisational rules, because there will always be rules that are important for employees to follow – and these rules should be explained so that employees understand why it's important to adhere to them. But for other rules, employees may be given some leeway.[21]

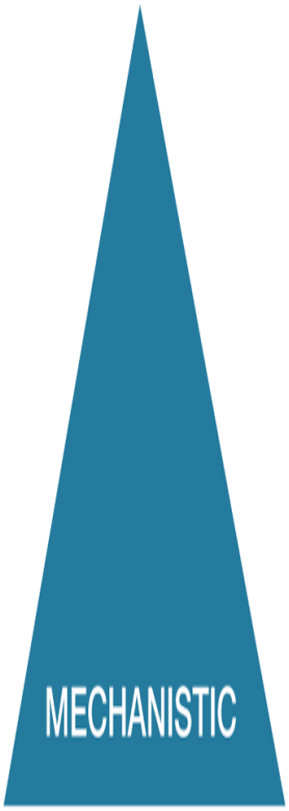
How is a mechanistic organisation different from an organic organisation?

Learning outcome 7.2 Compare and contrast the mechanistic and organic organisational forms.

Figure 7.5 describes two organisational forms.[22] The **mechanistic organisation** (or bureaucracy) was the natural result of combining the six elements of structure. Adhering to the chain-of-command principle ensured the existence of a formal hierarchy of authority, with each person controlled and supervised by one superior. Keeping the span of control small at increasingly higher levels in the organisation created tall, impersonal structures. As the distance between the top and the bottom of the organisation expanded, top management would increasingly impose rules and regulations. Because top managers couldn't control lower-level activities through direct observation and ensure the use of standard practices, they substituted rules and regulations. Implementing a high degree of work specialisation resulted in jobs that were simple, routine and standardised. Further specialisation through the use of departmentalisation increased impersonality and the need for multiple layers of management to coordinate the specialised departments. Many universities, government departments and public sector agencies use mechanistic

structures to help them coordinate large numbers of employees and ensure consistent operation.

Figure 7.5 Mechanistic versus organic organisations



- Rigid hierarchical relationships
- Fixed duties
- Many rules
- Formalised communication channels
- Centralised decision authority
- Taller structures

- Collaboration (both vertical and horizontal)
- Adaptable duties
- Few rules
- Informal communication
- Decentralised decision authority
- Flatter structures

mechanistic organisation

A structure that's high in specialisation, formalisation and centralisation

The **organic organisation** is a highly adaptive form that is as loose and flexible as the mechanistic organisation is rigid and stable. Rather than having standardised jobs and regulations, the organic organisation's loose structure allows it to change rapidly as required.[23] It has division of labour, but the jobs people do aren't standardised. Employees tend to be professionals who are technically proficient and trained to handle diverse problems. They need few formal rules and little direct supervision because their training has instilled in them standards of professional conduct. For example, surveyors don't need to be given procedures on how to locate a property boundary; professional standards guide their behaviour. The organic organisation is low in centralisation so that the professional can respond quickly to problems and because top-level managers cannot be expected to possess the expertise to make the necessary decisions.

organic organisation

A structure that's low in specialisation, formalisation and centralisation

NSW RURAL
FIRE SERVICE
NSW RURAL
FIRE SERVICE
NSW RURAL
FIRE SERVICE

For emergency service organisations, mechanistic structures enhance control, coordination and consistency. Emergency situations are usually chaotic, and quick responses are critical if people are injured or a property is on fire. Mechanistic structures can help by clearly defining areas of responsibility, establishing direct chains of command, and providing detailed procedures for handling complex circumstances.

Karl Hofman/Shutterstock.com

What contingency factors affect structural choice?

> Learning outcome 7.3 Identify the contingency factors that affect choice of organisational structure.

Top managers typically put a great deal of thought into designing an appropriate structure because the most appropriate structure to use depends on five contingency factors – that is, the organisation's strategy, size, culture, technology and degree of environmental uncertainty. Let's look at these contingency factors.

How does strategy affect structure?

Alfred Chandler's early studies of several large US companies demonstrated that strategies determine structure because changes in corporate strategy lead to changes in an organisation's structure that support the new strategy.[24] Since then, research has shown that certain structural designs work best with different organisational strategies.[25] For example, the flexibility and free-flowing information of the organic structure works well when an organisation is pursuing meaningful and unique innovations. The mechanistic organisation – with its efficiency, stability and tight controls – works best for companies wanting to tightly control costs.

How does size affect structure?

There's considerable evidence that an organisation's size affects its structure.[26] Large organisations – defined by the Australian Bureau of Statistics as having more than 200 employees – tend to have more specialisation, departmentalisation, centralisation, and rules and regulations than do small organisations. However, once an organisation grows past a certain size, size has less influence on structure. Once there are about 2,000 employees, it's already fairly mechanistic. Adding another 500 employees won't impact the structure much. On the other hand, adding 500 employees to an organisation that has only 50 employees is likely to make it more mechanistic.

How does culture influence structure?

An organisation’s culture may have an effect on its structure, depending on how strong, or weak, the culture is. In organisations with a strong culture, the culture can substitute for the rules and regulations that formally guide employees. In essence, strong cultures can create predictability, orderliness and consistency without the need for written documentation. Therefore, the stronger an organisation’s culture, the less managers need to be concerned with developing formal rules and regulations. Instead, those guides will be internalised in employees when they accept the organisation’s culture. If, on the other hand, an organisation’s culture is weak – if no dominant shared values are present – its effect on structure is less clear.

How does technology affect structure?

Every organisation uses some form of technology to convert its inputs into outputs. For example, workers at Rheem's manufacturing centres in New South Wales and Victoria use a range of different technologies to design, manufacture, assemble and install water-heating systems in houses and commercial premises.[27] The technology that an organisation uses determines the appropriateness of its organisational structure. The initial research on technology's effect on structure can be traced to Joan Woodward.[28] For more information on her groundbreaking work, see the Classic Concepts in Today's Organisations box.

Classic concepts in today's organisations: How does technology affect organisation design?

- Initial research on $\mathrm{Technology} \rightarrow \mathrm{Structure}$ was done by Joan Woodward.[29]
- Woodward, a British management scholar, studied small manufacturing firms in southern England to determine the extent to which structural design elements were related to organisational success.[30]
- No consistent pattern was found UNTIL the firms were divided into three distinct technologies that had increasing levels of complexity and sophistication.
  – Least complex and sophisticated: **unit production** – the production of items in units or small batches

unit production

The production of items in units or small batches

– **Mass production** – large-batch manufacturing

mass production
Large-batch manufacturing

– Most complex and sophisticated: **process production**
– continuous-process production

process production
Continuous flow of products being produced

- One of the earliest *contingency* studies.
- Woodward's answer to the 'it depends on' question: Appropriate organisational design depends on what the

organisation's technology is.

- More recent studies also have shown that organisations adapt their structures to their technology depending on *how routine their technology* is for transforming inputs into outputs.
- More routine technology, more likely to have mechanistic structure.
- More non-routine technology, more likely to have organic structure.

Discuss this

- Why is (a) mechanistic structure more appropriate for an organisation with routine technology, and (b) organic structure more appropriate for an organisation with non-routine technology?
- Does Woodward's framework (see **Table 7.3**) still apply to today's organisations? Why or why not?

Table 7.3 Woodward's findings on technology and structure

How does the environment affect structure?

Mechanistic organisations are most effective in stable environments. Organic organisations are best matched with dynamic and uncertain environments.

The evidence on the environment–structure relationship helps explain why so many managers have restructured their organisations to be lean, fast and flexible. Global competition, accelerated product innovation by all competitors, knowledge management, and increased demands from customers for higher quality and faster deliveries are examples of dynamic environmental forces.[31] Mechanistic organisations tend to be ill-equipped to respond to rapid environmental change. As a result, some managers are redesigning their organisations in order to make them more organic.[32]

What are some common organisational designs?

> Learning outcome 7.4 Compare and contrast traditional and contemporary organisational designs.

In making structural decisions, managers have some common designs from which to choose: traditional and more contemporary. Let’s look at some of them.

What traditional organisational designs can managers use?

When designing a structure, managers may choose one of the traditional organisational designs. These structures – simple, functional, divisional and matrix – tend to be more mechanistic in nature. (See **Table 7.4** for a summary of the strengths and weaknesses of each.)

Table 7.4 Traditional organisational designs

What is the simple structure?

Most companies start as entrepreneurial ventures using a **simple structure**, which is an organisational design with low departmentalisation, wide spans of control, authority centralised in a single person and little formalisation.[33] The simple structure is most widely used in smaller businesses and its strengths should be obvious. It's fast, flexible and inexpensive to maintain, and accountability is clear. However, it becomes increasingly inadequate as an organisation grows, because its few policies or rules to guide operations and its high centralisation result in information overload at the top. As size increases, decision making slows and can eventually come to a standstill as the single executive tries to continue making

all the decisions. If the structure isn't changed and adapted to its size, the firm can lose momentum and is likely eventually to fail. The simple structure's other weakness is that it's risky: everything depends on one person. If anything happens to the owner–manager, the organisation's information and decision-making centre is lost.

simple structure
An organisational design with low departmentalisation, wide spans of control, authority centralised in a single person and little formalisation

As employees are added, however, most small businesses don't remain as simple structures. The structure tends to become more specialised and formalised. Rules and regulations are introduced, work becomes specialised, departments are created, levels of management are added and the organisation becomes increasingly bureaucratic. Two of the most popular bureaucratic design options grew out of functional and product departmentalisations and are called the functional and divisional structures.

What is the functional structure?

A **functional structure** is an organisational design that groups similar or related occupational specialties together. You can think of this structure as functional departmentalisation applied to the entire organisation. For example, a fashion design company might be organised around the functions of creative design, finance, manufacturing, sales and marketing, and human resources.

> ***functional structure***
>
> An organisational design that groups similar or related occupational specialties together

The strength of the functional structure lies in the advantages that accrue from work specialisation. Putting like specialties together results in economies of scale, minimises duplication of personnel and equipment, and makes employees feel comfortable and satisfied because it gives them the opportunity to talk the same language as their peers. The most obvious weakness of the functional structure, however, is that the organisation frequently loses sight of its best interests in the pursuit of functional goals. No one function is totally responsible for results, so members within individual functions become insulated and have little understanding of what people in other functions are doing.

Managing for sustainability: Structure and sustainability

An organisation's structure affects every aspect of its operations, from the selection of leaders and goals to the way day-to-day tasks are performed. Structure is therefore important to sustainability. But different structures affect sustainability in different ways.[34]

Simple structures centralise decision making with the business owners. When used in family businesses, they typically operate as 'lean and mean' organisations and with a long-term orientation towards the future. These attributes can enhance sustainability by generating an operational focus on efficiency and minimising wastage and establishing a top-down focus on sustainability issues in decision processes. However, they can also create challenges if the organisation has insufficient resources to support sustainability initiatives or when decision makers hold conflicting beliefs about the importance of sustainability.

In contrast, corporate structures – such as those used by publicly listed companies – are led by an executive leadership team and a board of directors and typically use more complex organisational designs to accommodate their larger size,

greater resources and broader (even global) scope. Such complexity can both help and hinder organisational efforts to increase sustainability. Larger size, greater resources and broader reach all increase the organisation's capacity to enhance sustainability by increasing the scope of initiatives it can pursue and providing the flexibility to develop different approaches to suit the needs of different functional areas or divisions. However, large size and structural complexity can also complicate the alignment of organisational activities necessary for enhancing efficiency and monitoring sustainability outcomes.

What is the divisional structure?

The **divisional structure** is an organisational structure made up of separate business units or divisions.[35] In this structure, each division has limited autonomy, with a division manager who has authority over their unit and is responsible for performance. In divisional structures, however, the parent corporation typically acts as an external overseer to coordinate and control the various divisions, and often provides support services such as financial and legal. Health-care giant Johnson & Johnson, for example, has three divisions: pharmaceuticals, medical devices and diagnostics, and consumer products. In addition, it has several subsidiaries that also manufacture and market diverse health-care products.

divisional structure

An organisational structure made up of separate business units or divisions

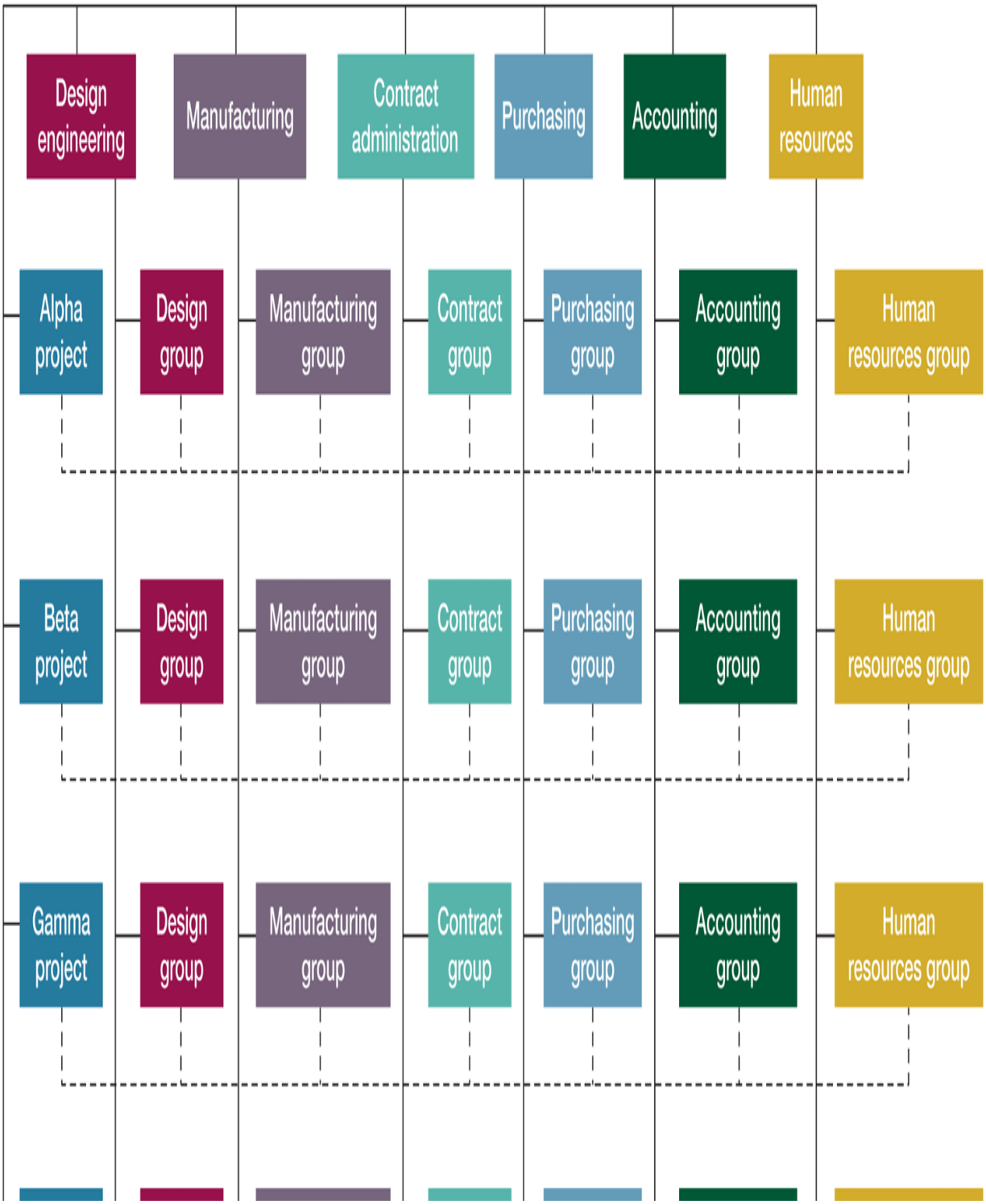
The chief advantage of the divisional structure is that it focuses on results. Division managers have full responsibility for a product or service. The divisional structure also frees the headquarters staff from being concerned with day-to-day operating details so that they can pay attention to long-term and strategic planning. The main disadvantage of the divisional structure is duplication of activities and resources. Each division, for example, may have a marketing research department. If there weren't any divisions, all of an organisation's marketing research might be centralised and done for a fraction of the cost that divisionalisation requires. Thus, the divisional form's duplication of functions increases the organisation's costs and reduces efficiency.

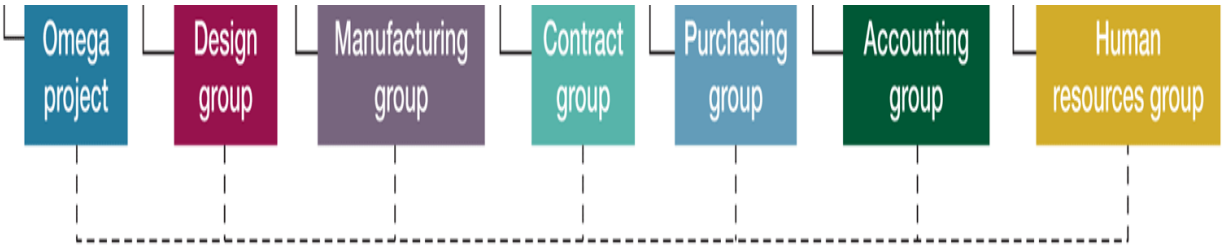
What are matrix structures?

The **matrix structure** combines functional and divisional structures to enhance horizontal coordination and the sharing of information.[36] One unique aspect of this design is that it creates a *dual chain of command*, since employees in a matrix organisation have two managers – their functional area manager and their project manager – who share authority (see **Figure 7.6**). To work effectively, both

managers have to communicate regularly, coordinate work demands on employees and resolve conflicts together.

Figure 7.6 Sample matrix structure





matrix structure

A structure in which specialists from different functional departments are assigned to work on projects led by a project manager

The primary strength of the matrix structure is that by creating two intersecting communication structures, it increases information flows for decision making. The main disadvantages are the confusion it creates and its propensity to foster power struggles. When you dispense with the chain of command and unity of command principles, you significantly increase ambiguity. Confusion can arise over who reports to whom. The confusion and ambiguity, in turn, are what trigger the power struggles.

What contemporary organisational designs can managers use?

> Lean. Flexible. Innovative.

Managers are finding that the traditional designs often aren't appropriate for today's increasingly dynamic and complex environment. Instead, organisations need to be lean, flexible and innovative – that is, more organic. So, managers are finding creative ways to structure and organise work by using designs such as team-based structures, project structures and boundaryless structures.[37] (See **Table 7.5** for a summary of these designs.)

Table 7.5 Contemporary organisational designs

What are team structures?

Larry Page and Sergey Brin, co-founders of Google, created a corporate structure that 'tackles most big projects in small, tightly focused teams'.[38] A **team structure** is one in which the entire organisation is made up of work teams that do the organisation's work.[39] In this structure, employee empowerment is crucial because there is no line of managerial authority from top to bottom. Rather, employee teams design and do work in the way they think is best, but are also held responsible for all work performance results in their

respective areas. In large organisations, the team structure complements what is typically a functional or divisional structure. This allows the organisation to have the efficiency of a bureaucracy while providing the flexibility of teams. For example, companies such as Amazon, Boeing, Louis Vuitton, Motorola and Heinz make extensive use of employee teams to improve productivity.

team structure

A structure in which the entire organisation is made up of work teams

Although team structures have been positive, simply arranging employees into teams isn't enough. Employees must be trained to work on teams, receive cross-functional skills training and be compensated accordingly. Without a properly implemented team-based pay plan, many of the benefits of a team structure may be lost.[40] We'll cover this topic more thoroughly in the chapter on managing work groups and teams.

What are project structures?

A **project structure** organises employees to work continuously on projects. A project structure has no formal departments where employees return at the completion of a project. Instead, employees

take their specific skills, abilities and experiences to other projects. Also, all work in project structures is performed by teams of employees. For example, at Fox Production Services, part of Fox Studios Australia, production teams form, disband and form again as the work requires. Employees 'join' teams because they bring needed skills and abilities to the production of that movie or television program.[41] Project structures tend to be more flexible organisational designs. The main advantage is that employees can be deployed rapidly to respond to environmental changes. Also, there's no departmentalisation or rigid organisational hierarchy to slow down making decisions or taking action. In this structure, managers serve as facilitators, mentors and coaches. They eliminate or minimise organisational obstacles and ensure that teams have the resources they need to complete their work effectively and efficiently. The two main disadvantages of the project structure are the complexity of assigning people to projects and the inevitable task and personality conflicts that arise.

project structure

A structure in which employees continuously work on projects

What is a boundaryless organisation?

Another contemporary organisational design is the **boundaryless organisation**, which is an organisation whose design isn't defined by, or limited to, the horizontal, vertical or external boundaries imposed by a predefined structure.[42] Former GE chairman Jack Welch coined the term because he wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. Although the idea of eliminating boundaries may seem odd, many of today's most successful organisations are finding that they can operate most effectively by remaining flexible and *un*structured: that the ideal structure for them is *not* rigid, bounded and predefined.[43]

boundaryless organisation

An organisation whose design isn't defined by, or limited to, boundaries imposed by a predefined structure

What do we mean by 'boundaries'? There are two types: (1) *internal* – the horizontal ones imposed by work specialisation and departmentalisation, and the vertical ones that separate employees into organisational levels and hierarchies; and (2) *external* – the boundaries that separate the organisation from its customers, suppliers and other stakeholders. To minimise or eliminate these boundaries, managers might use virtual or network structural designs.

A **virtual organisation** consists of a small core of full-time employees and outside specialists hired temporarily as needed to work on projects.[44] An example is when Second Life, a company that created an online virtual world, was building its software. Founder Philip Rosedale hired programmers from around the world and divided up the work into about 1,600 individual tasks, 'from setting up databases to fixing bugs'. The inspiration for this structural approach comes from the film industry. There, people are essentially 'free agents' who move from project to project applying their skills – directing, talent casting, costuming, makeup, set design and so forth – as needed.

Airbnb has leveraged a network organisational structure and the gig economy to create an innovative accommodation service. The company provides the platform through which people looking for a place to stay can connect with a massive global network of accommodation providers. In this photo, Airbnb co-founder Brian Chesky is visiting the owner of a bed-and-breakfast place in Cape Town, South Africa.

View Pictures/Getty Images

virtual organisation

An organisation that consists of a small core of full-time employees and outside specialists

hired temporarily as needed to work on projects

Another structural option for managers wanting to minimise or eliminate organisational boundaries is a **network organisation**, which is one that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes.[45] Manufacturing firms sometimes call this organisational form a modular organisation.[46] This structural approach allows organisations to concentrate on what they do best by contracting out other activities to companies that do those activities best. For example, Thankyou announced in 2020 that in order to focus more effectively on achieving its social goals, the organisation would adopt a network organisational form and outsource its product manufacturing. Thankyou would focus on its core strengths in marketing and in creating social impact, and a network of external partners would be licensed to manufacture products under the Thankyou brand.[47] Sweden's Ericsson contracts its manufacturing and even some of its research and development to more cost-effective contractors in New Delhi, Singapore, California and other global locations.[48]

network organisation

An organisation that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes

In recent years the emergence of the gig economy and the associated ‘on-demand’ workforce has made it possible for organisations to extend their use of the network organisational form even further.[49] **Gig economy** refers to the use of technology platforms such as Airtasker, Uber, Freelancer and Deliveroo ‘to match people who want work done with people who want to do that work’.[50] It’s called the gig economy because, as with music gigs, people are engaged to perform a specific job for a specified period of time. Once the gig is over, so is the relationship with that employer. That’s why it’s also known as the on-demand economy, and the people who work in it are known as the **on-demand workforce**.

gig economy

The use of digital platforms to connect people who want work done with people who want to do it

on-demand workforce

Labour pool of people who source work through digital platforms

The gig economy isn't just about providing drivers for delivery or ride-share services. Increasingly, platforms like Airtasker and Sidekicker are helping organisations to 'engage very high-calibre talent for short time spans'.[51] This provides access to highly skilled and experienced individuals who can perform very specialised and even executive-level roles such as chief financial officer and chief technology officer. In this way, organisations can bring valuable intellectual property and expertise into the network as and when the business needs it, and for only as long as it's required.

Workers in the on-demand workforce are considered freelance, self-employed and independent contractors who are engaged strictly on a fee-per-service basis. This gives service organisations such as Uber, Uber Eats and Deliveroo a great deal of operational and financial flexibility because they can precisely match their labour supply to their service demand and adjust it almost instantaneously. But it also means they have less control over how the work is done and over the resources needed to do that work.

Managing for diversity and inclusion: Sourcing diversity

The gig economy and the on-demand workforce allow organisations to overcome both skill shortages and labour supply shortages. But they can also have benefits for workforce diversity. They provide opportunities to find subject-matter experts and leaders in their field wherever in the world they are located. This means organisations can access a more diverse range of workers than they may find in their local labour market. In addition to overcoming local skill shortages and the need to import workers with desirable skills, the on-demand workforce can provide access to people from a wider range of cultural backgrounds. For instance, a recent inquiry into the on-demand workforce by the Victorian state government found that people who spoke a language other than English were 1.5 times more likely to be on-demand workers.[52] The gig economy also creates more flexibility for organisations to accommodate people's diverse career plans and preferences, because contractors can source work matching their skill set and choose which specific projects they want to work on. However, organisations need to consider carefully when and how they use it, as it may not suit people with cultural preferences for organisational structures that are more hierarchical, formalised and centralised.

What are today’s organisational design challenges?

Learning outcome 7.5 Discuss the design challenges faced by today’s organisations.

Changing the way work is done.

As managers look for organisational designs that will best support and facilitate *employees doing their work efficiently and effectively*, there are certain challenges they must contend with. These include managing global structural issues, building a learning organisation, designing flexible work arrangements and keeping employees connected.

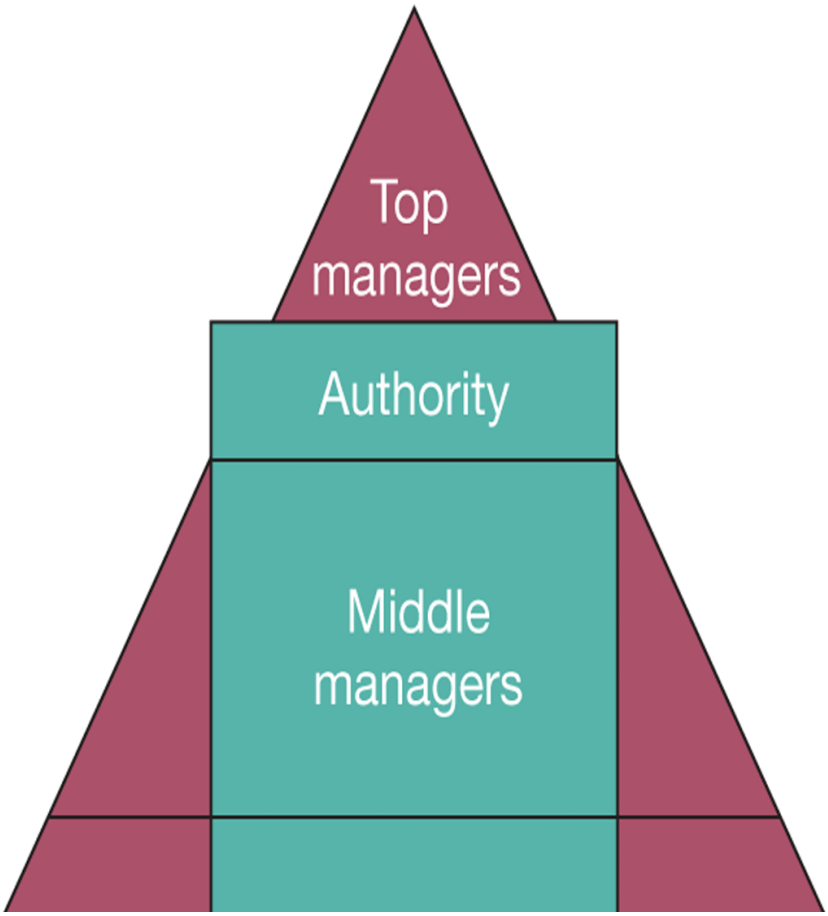
How do you keep employees connected?

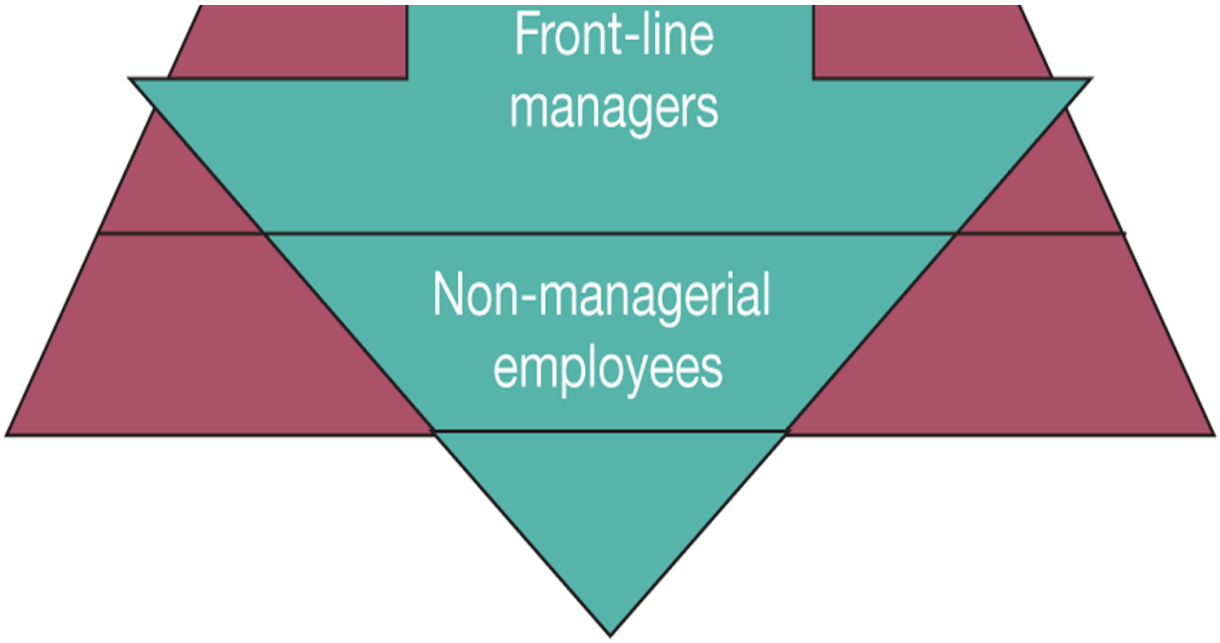
Many organisational design concepts were developed during the 20th century, when work tasks were fairly predictable and constant, most jobs were full-time and continued indefinitely, and work was done at an employer's place of business under a manager's supervision.[53] That's not what it's like in many organisations today, as you saw in our preceding discussion of virtual and network organisations. A major structural design challenge for managers is finding a way to keep widely dispersed and mobile employees connected to the organisation.

How do you delegate effectively?

Delegation is the assignment of authority to another person to carry out specific activities. It allows an employee to make decisions – that is, it's a shift of decision-making authority from one organisational level to another lower one (see **Figure 7.7**). Delegation, however, shouldn't be confused with participation. In participative decision making, authority is shared. With delegation, employees make decisions on their own.

Figure 7.7 Effective delegation





Effective delegation pushes authority down vertically through the ranks of an organisation.

delegation

Assigning authority to another person to carry out specific activities

As a manager, you need to delegate to be effective in your job. Many new and inexperienced managers try to do everything themselves because they lack confidence in their employees or are fearful that they'll be criticised for their employees' mistakes. But you simply can't do everything yourself, so it's important to develop skills in delegating

effectively. If you, as a manager, dump tasks on an employee without clarifying the exact job to be done, the range of the employee's discretion, the expected level of performance, the time frame in which the tasks are to be completed and similar concerns, you are abdicating responsibility and inviting trouble.[54] So, you need to determine how much to delegate, how to delegate it, and how to put controls in place to prevent and correct any problems.

How much authority should managers delegate? Should they keep authority centralised, delegating only the minimal amount to complete the delegated duties? What contingency factors should be considered in determining the degree to which authority is delegated? **Table 7.6** presents the most widely cited contingency factors to provide some guidance in making these determinations.

Table 7.6 Contingency factors in delegation

Assuming that delegation is in order, how do you delegate? A number of methods have been suggested for differentiating the effective delegator from the ineffective one.[55]

- **Clarify the assignment.** First, determine what is to be delegated and to whom. Identify the person who is most capable of doing the task and then determine whether they have the time and motivation to do the job. Then provide clear information on what's being delegated, the results you expect, and any time or performance expectations you hold. Unless the project entails an overriding need to adhere to specific methods, you should ask the

employee only to provide the desired results. That is, get agreement on what is to be done and the results expected, but let the employee decide how the work is to be completed. By focusing on goals and allowing the employee the freedom to use their own judgment as to how those goals are to be achieved, you increase trust between you and the employee, improve the employee's motivation and enhance accountability for results.

- **Specify employees' range of discretion.** Every act of delegation comes with constraints. You're delegating the authority to act on certain issues within certain parameters. You need to specify what those parameters are so that employees know, in no uncertain terms, the range of their discretion. You and your employees will then have the same idea of the limits to their authority and how far they can go without further approval.
- **Allow employees to participate.** One of the best ways to decide how much authority will be necessary is to allow employees who will be held accountable for the tasks to participate in that decision. Be aware, however, that some employees might be personally motivated to expand their authority beyond what they need and beyond what they are capable of handling. Allowing such people too much participation in deciding what tasks they should take on and how much authority they must have to complete those tasks can undermine the effectiveness of the delegation process.
- **Inform others that delegation has occurred.** Anyone else who is likely to be affected by the delegation act, inside or outside the organisation, also needs to be informed about what has been delegated and how much authority has been granted. Essentially,

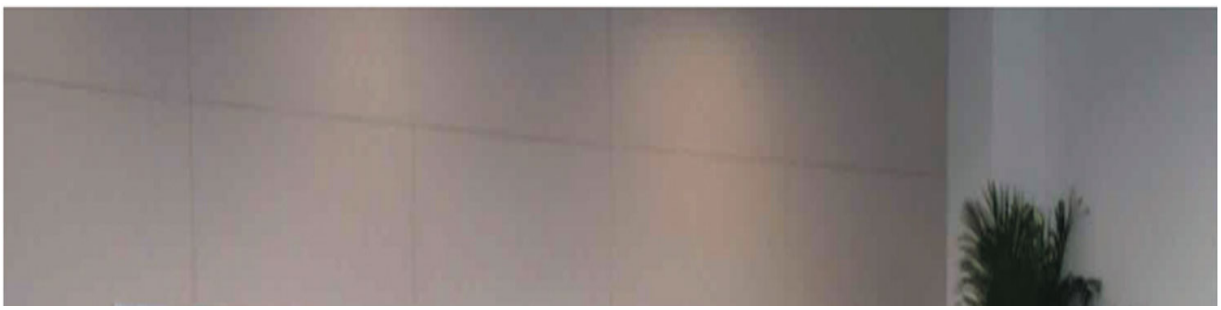
you need to convey what has been delegated (the task and amount of authority) and to whom, so that people know that the person has the responsibility and authority to deal with the issue. Failure to inform others makes conflict likely and decreases the chances that your employees will be able to accomplish the delegated act efficiently.

- **Establish feedback controls.** To delegate without instituting feedback controls is inviting problems. You should expect and accept some mistakes by your employees. Mistakes are part of delegation. They're often good learning experiences for employees as long as their costs aren't excessive. To ensure that the costs of mistakes don't exceed the value of the learning, you need to put adequate controls in place. It's also possible that employees will misuse the discretion they have been given. Controls to monitor employees' progress increase the likelihood that important problems will be identified early and that the task will be completed on time and to the desired specification. Ideally, these controls should be determined at the time of initial assignment. Agree on a specific time for completion of the task, and then set progress dates by which employees will report on how well they are doing and on any major problems that have surfaced. These controls can be supplemented with periodic spot checks to ensure that authority guidelines aren't being abused, organisation policies are being followed, proper procedures are being met, and the like. Remember, though, that if the controls are too constraining, employees will be deprived of the opportunity to build self-confidence. As a result, much of the motivational aspect of delegation may be lost. A well-designed control system, which

we will elaborate on in more detail in the chapter on controlling work and organisational processes, permits your employees to make small mistakes but quickly alerts you when big mistakes are imminent.

How do global differences affect organisational structure?

Are there global differences in organisational structures? Are Australian organisations structured like those in the United States? Are German organisations structured like those in France or Mexico? Given the global nature of today's business environment, this is an issue with which managers need to be familiar. Researchers have concluded that the structures and strategies of organisations worldwide are similar, 'while the behavior within them is maintaining its cultural uniqueness'.[56] What does this mean for designing effective and efficient structures? When designing or changing structure, managers may need to think about the cultural implications of certain design elements. For example, one study showed that formalisation – rules and bureaucratic mechanisms – may be more important in less economically developed countries and less important in more economically developed countries where employees may have higher levels of professional education and skills.[57] Other structural design elements may be affected by cultural differences as well.



Jack Ma, chairman of Chinese e-commerce firm Alibaba, is training young Africans on entrepreneurship, the internet, and the value of continual learning.

Imagine China/Newscom

How do you build a learning organisation?

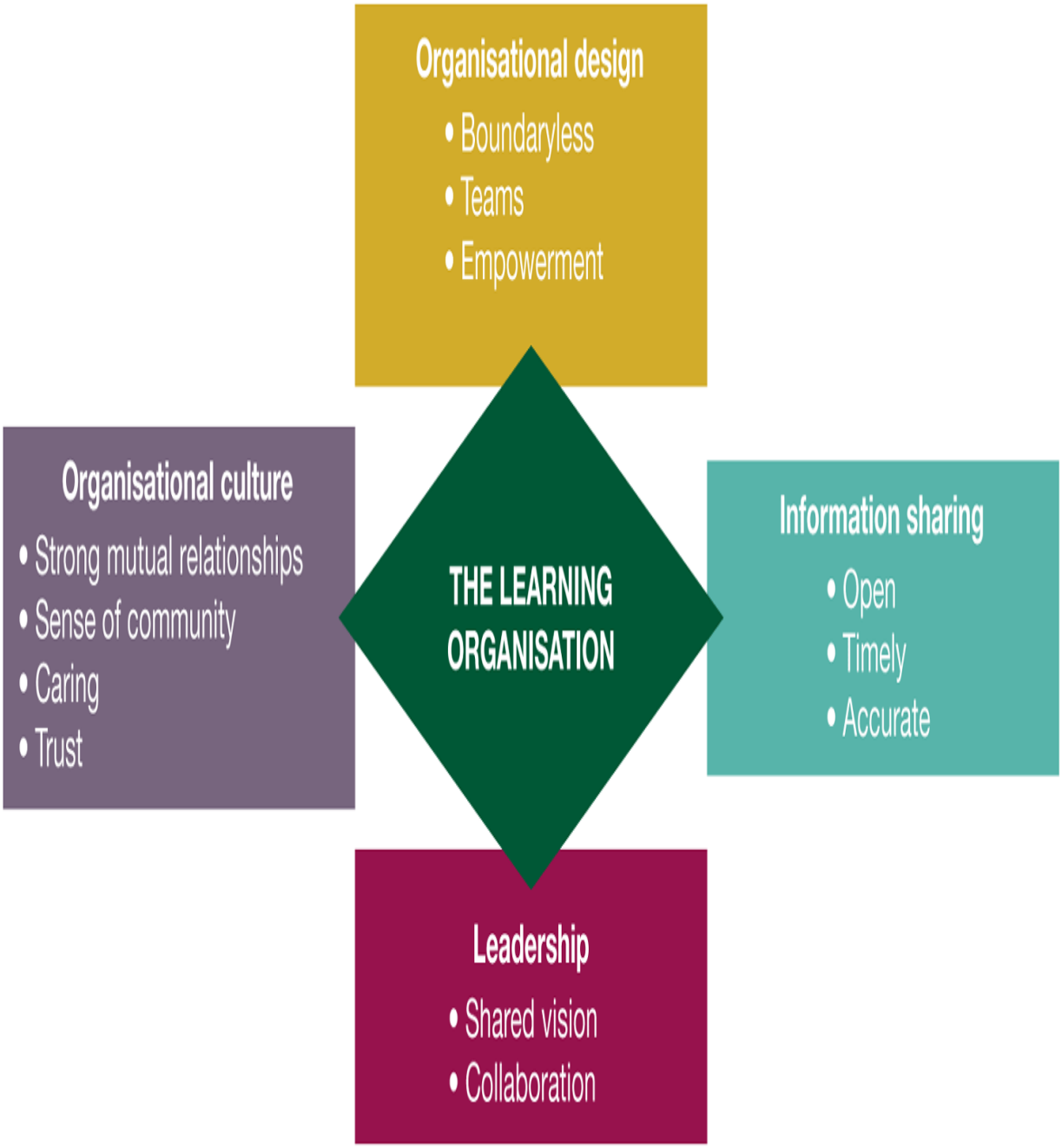
Doing business in an intensely competitive global environment, British retailer Tesco realised how important it was for its stores to run well behind the scenes. And it does so using a proven 'tool' called Tesco in a Box, which promotes consistency in operations as well as being a way to share innovations. Tesco is an example of a **learning organisation**, an organisation that has developed the capacity to continuously learn, adapt and change.[58] The concept of a learning organisation doesn't involve a specific organisational design per se, but instead describes an organisational mindset or philosophy that has significant design implications. In a learning organisation, employees are practising knowledge management by continually acquiring and sharing new knowledge and are willing to apply that knowledge in making decisions or performing their work. Some organisational design theorists even go so far as to say that an organisation's ability to learn, and to apply that learning as they perform the organisation's work, may be the only sustainable source of competitive advantage.

learning organisation

> An organisation that has developed the capacity to continuously learn, adapt and change

What would a learning organisation look like? As you can see in **Figure 7.8**, the important characteristics of a learning organisation revolve around (1) organisational design, (2) information sharing, (3) leadership, and (4) culture.

Figure 7.8 Characteristics of a learning organisation



Sources: Based on P. M. Senge, The Fifth Discipline: The Art and Practice of Learning Organizations (New York: Doubleday, 1990); and R. M. Hodgetts, F. Luthans and S. M. Lee, 'New Paradigm Organizations: From Total Quality to Learning to World Class', Organizational Dynamics, Winter 1994, pp. 4–19.

- What types of *organisational design* elements would be necessary for learning to take place? In a learning organisation,

it's critical for members to share information and to collaborate on work activities throughout the entire organisation – across different functional specialties and even at different organisational levels – through minimising or eliminating the existing structural and physical boundaries. In this type of boundaryless environment, employees are free to work together and collaborate in doing the organisation's work the best way they can, and to learn from each other. Because of this need to collaborate, teams also tend to be an important feature of a learning organisation's structural design. Employees work in teams on whatever activities need to be done, and these employee teams are empowered to make decisions about doing their work or resolving issues. Empowered employees and teams have little need for 'bosses' who direct and control. Instead, managers serve as facilitators, supporters and advocates for employee teams.

- Learning can't take place without information. For a learning organisation to 'learn', information must be *shared* among members; that is, organisational employees must engage in knowledge management by sharing information openly, in a timely manner, and as accurately as possible. Because few structural and physical barriers exist in a learning organisation, the environment is conducive to open communication and extensive information sharing.
- *Leadership* plays an important role as an organisation moves towards becoming a learning organisation. What should leaders do in a learning organisation? One of their most important functions is facilitating the creation of a shared vision for the organisation's future and then keeping organisational members

working towards that vision. In addition, leaders should support and encourage the collaborative environment that's critical to learning. Without strong and committed leadership throughout the organisation, it would be extremely difficult to be a learning organisation.

- The organisation's *culture* is important to being a learning organisation. In a learning culture, everyone agrees on a shared vision and recognises the inherent interrelationships among the organisation's processes, activities, functions and external environment. It also fosters a strong sense of community, caring for each other and trust. In a learning organisation, employees feel free to communicate openly, share, experiment and learn without fear of criticism or punishment.

How can managers design efficient and effective flexible work arrangements?

Thanks to technology, many forms of work can now be done anywhere, anytime. As organisations adapt their structural designs to these new realities, we see more of them adopting flexible working arrangements. Such arrangements not only exploit the power of technology, but give organisations the flexibility to deploy employees when and where needed. In this section, we're going to take a look at some different types of flexible work arrangements including telecommuting, compressed work weeks, flexitime and job sharing. As with the other structural options we've looked at, managers must evaluate these in light of the implications for decision making, communication, authority relationships, work task accomplishment, and so on.

What's involved in telecommuting?

Information technology has made telecommuting *possible* and external environmental changes have made it *necessary* for many organisations. **Telecommuting** is a work arrangement in which employees can log into workplace networks from home, rather than

commute to their work site. Needless to say, not every job is a candidate for telecommuting. But many are.

> ***telecommuting***
>
> A work arrangement in which employees log into workplace networks from home rather than commute to their work site.

Working from home used to be considered a ‘cushy perk’ for a few lucky employees, and such an arrangement wasn’t allowed very often. But in 2020, as the world dealt with the COVID-19 pandemic, telecommuting became a business necessity. Previously, many organisations had used telecommuting to minimise costs. However, in the pandemic, it quickly became apparent that telecommuting also offered a range of additional benefits. These included helping people to work while in quarantine or self-isolating, and lowering the likelihood and incidence of community transmission by reducing the number of people who were commuting or using shared workspaces. (For further discussion, see the Rethinking Management in a Global Crisis box.) Many organisations are also realising the benefits of using telecommuting to minimise costs for office buildings, equipment and parking spaces, reducing employee commuting trips (which reduces carbon emissions), and to attract talented employees who want more freedom and control over their work.

Todd Horton is the founder and CEO of KangoGift, a human resources software firm that helps companies send performance rewards to employees. Horton is shown here with intern Minjee Kim at a co-working space where he holds meetings via Skype to connect with his employees in Boston, Europe and India.

Michael Dwyer/AP Images

Despite the appeal and benefits of telecommuting, many managers are reluctant to have their employees become 'laptop hobos'[59] and those concerns have persisted throughout the pandemic. They argue that employees might waste time updating their social media pages or playing online games instead of working, ignore clients, and miss the camaraderie and social exchanges of the workplace. In addition, managers worry about how they'll 'manage' these employees. How do you interact with an employee and gain their trust when they're not physically present? And what if their work performance isn't up to scratch? How do you make suggestions for improvement? Another significant challenge has been making sure that company information is kept safe and secure when employees are working from home.

Employees have expressed the same concerns about working remotely, especially when it comes to the isolation of not being 'at work'. At Accenture, where employees are scattered around the world, the chief HR officer says that it isn't easy to maintain that esprit de corps.[60] However, the company put in place a number of programs and processes to create that sense of belonging for its workforce, including webconferencing tools, assigning each employee

to a career counsellor, and holding quarterly community events at its offices. In addition, the telecommuter employee may find that the line between work and home becomes even more blurred, which can be stressful.[61] These are important organising issues and ones that managers and organisations must address when employees telecommute.

Rethinking management in a global crisis: How working from home *really* works

During the enforced isolation phases of the COVID-19 pandemic in 2020–2021, governments in countries including Australia, the United States and New Zealand encouraged people to work from home wherever possible. This forced experiment with teleworking generated a number of new insights into the pros, cons and success requirements for working from home:

- **When work really has to be done from home, it is possible to support teleworking.**

With governments mandating people work from home, many employers who had traditionally resisted teleworking arrangements suddenly had to embrace it. Some employers found teleworking so beneficial it became their new operational model. In May 2020, for example, Twitter and Square announced that their employees could work from home permanently.[63]

- **You can be really productive working from home . . . if you have the place to yourself.**

People working from home alone reported that being away from the distractions and interruptions of their normal work environment meant they could be much more productive. But people working from homes they shared with partners, housemates and children had a very different experience. Having to share workspaces and internet access with other household members who were working, and with children who were undertaking schooling, proved challenging for many people. Anecdotal accounts emerged of people working from their bathrooms, and even closets, just to get the quiet they needed to concentrate on and perform their work.

- **With a whole family at home, only one parent gets any work done.**

For couples with young children at home, the need to care for, supervise and entertain their children generally meant only one partner could work at a time. Some parents shared the care and work responsibilities by taking ‘shifts’ as the carer and the worker. Others divided their caring according to their work responsibilities, with the (generally male) partner working full-time or for the higher wage spending more time working, and the other (generally female) partner spending most of their time care-giving.

- **Teleworking can generate great financial savings . . . for the employer.**

With employees required to work from home, many employers were able to shut down their workplaces and generate a considerable cost

savings on cleaning services, power and heating. But people working from home then experienced commensurate increases in their household bills for power, heating and food.

How can organisations use compressed work weeks, flexitime and job sharing?

When accounting firm KPMG needed to reduce costs, it decided to use flexible work options as a way of doing so.[62] The company's program, called Flexible Futures, offered employees four options to choose from: a four-day work week with a 20 per cent salary reduction; a two- to twelve-week sabbatical at 30 per cent of pay; both options; or continue with their regular schedule. Some 85 per cent of the company's UK employees agreed to a reduced work week. 'Since so many people agreed to the flexible work plans, KPMG was able to cap the salary cut at about 10 per cent for the year in most cases.' The best thing, though, was that as a result of the plan, KPMG didn't have to radically reduce its workforce.

As this example shows, organisations sometimes find they need to restructure work using other forms of flexible work arrangements. One approach is a **compressed work week** in which employees work longer hours per day but fewer days per week. The most common arrangement is four 10-hour days (a 4–40 program). Another alternative is **flexitime** (also known as **flexible work hours**), which is a scheduling system in which employees are required to work a specific number of hours a week but are free to

vary those hours within certain limits. In a flexitime schedule, most companies designate certain common core hours when all employees are required to be on the job, but starting, ending and lunch-hour times are flexible. Another type of job scheduling is called **job sharing** – the practice of having two or more people split a full-time job. Organisations might offer job sharing to professionals who want to work but don't want the demands and hassles of a full-time position. For example, at professional services firm EY, employees in many of the company's locations can choose from a variety of flexible work arrangements, including job sharing. Many companies use job sharing during economic downturns to avoid employee layoffs.[64]

compressed work week

A work week where employees work longer hours per day but fewer days per week

flexitime (flexible work hours)

A work scheduling system in which employees are required to work a specific number of hours per week but can vary when they work those hours within certain limits

job sharing

When two or more people split a full-time job

> How can organisations create **career progression pathways** in flatter organisations?

In recent times, many large bureaucratic organisations have redesigned their organisational structures to reduce costs, enhance efficiency, improve effectiveness and better align with strategic goals.[65] For example, SAP, one of the world's largest enterprise software companies, recently restructured its global operations to refocus the company and its 87,100 employees around cloud-based products and services. SAP's goals were to use the new structure to grow more quickly, to be more adaptable to market changes, and to shorten the time it took to roll out new innovations to its customers.

Eliminating layers of middle management and expanding spans of control means organisations can use fewer managers to supervise their employees and flatten their organisational hierarchies. But new structures require new approaches to management. Broadening managerial responsibilities and spans of control requires different managerial capabilities and has also changed the ways in which organisations can develop their future managers. Corporate restructures, outsourcing and offshoring reduce opportunities to develop new managers, because there are fewer employees to manage and fewer first-line managerial positions in which new

managers can develop their supervisory and leadership skills. Flatter structures with fewer managerial levels also mean fewer opportunities for employees to progress their career by climbing up the corporate ladder.

For both managers and organisations, this has necessitated a shift in thinking and practice about developing managerial careers. Organisations that have previously used promotions to recognise and reward long-serving employees and retain managerial talent are now having to explore other alternatives. Some have responded by helping people develop their skills and capabilities in their existing roles. Others have focused more on providing lateral transfers so that employees can work in new functional areas and broaden their understanding of the organisation and its activities. This means, for example, that an HR or finance manager who cannot move up in a flat organisation can still grow their career by moving into a new functional area or working on specialised projects.

No matter what structural design managers choose for their organisations, the design should help employees do their work in the best, most efficient and effective way they can. The structure needs to help, not hinder, organisational members as they carry out the organisation’s work. After all, the structure is simply a means to an end.

Review

Chapter 7 summary

7.1 Describe six key elements in organisational design.

The first element, *work specialisation*, refers to dividing work activities into separate job tasks. The second, *departmentalisation*, is how jobs are grouped together, which can be one of five types: functional, product, customer, geographic or process. The third – *authority, responsibility and power* – has to do with getting work done in an organisation. *Authority* refers to the rights inherent in a managerial position to give orders and expect those orders to be obeyed. *Responsibility* refers to the obligation to perform when authority has been delegated. *Power* is the capacity of an individual to influence decisions and differs from authority. The fourth element, *span of control*, refers to the number of employees a manager can manage efficiently and effectively. The fifth, *centralisation and decentralisation*, deals with where the majority of decisions are made – at upper organisational levels or pushed down to lower-level managers. The sixth, *formalisation*, describes how standardised an organisation's jobs are and the extent to which employees' behaviour is guided by rules and procedures.

7.2 Compare and contrast the mechanistic and organic organisational forms.

A *mechanistic* organisational design is quite bureaucratic, and is characterised by a formal hierarchy of authority, small spans of control, tall structures, standardised jobs and departmentalisation.

An *organic* organisational design is more fluid and flexible, and is low in specialisation, formalisation and centralisation.

7.3 Identify the contingency factors that affect choice of organisational structure.

The *strategy-determines-structure* factor says that as organisational strategies move from single product to product diversification, the structure will move from organic to mechanistic. As an organisation's *size* increases, so does the need for a more mechanistic structure. If an organisation has a strong culture, the culture can substitute for structural elements in guiding employee behaviour. The more non-routine the *technology*, the more organic a structure should be. Finally, stable *environments* are better matched with mechanistic structures, but dynamic ones fit better with organic structures.

7.4 Compare and contrast traditional and contemporary organisational designs.

Traditional structural designs include simple, functional, divisional and matrix structures. A *simple structure* is one with low departmentalisation, wide spans of control, authority centralised in a single person and little formalisation. A *functional structure* is one that groups similar or related occupational specialties together. A *divisional structure* is one made up of separate business units or divisions. A *matrix structure* combines functional and divisional structures. Contemporary structural designs include *team-based structures* (the entire organisation is made up of work teams), *project structures* (where employees work on projects for short

periods of time or continuously) and *boundaryless organisations* (where the structural design is free of imposed boundaries). A boundaryless organisation can be either a virtual or a network one.

7.5 Discuss the design challenges faced by today's organisations. One design challenge lies in keeping employees connected, which can be accomplished through using information technology. Another is creating new career pathways when flattening organisations means there are fewer steps to climb up the corporate ladder. Another challenge is understanding the global differences that affect organisational structure. Although structures and strategies of organisations worldwide are similar, the behaviour within them differs, which can influence certain design elements.

Another challenge is designing a structure around the mindset of being a learning organisation. Finally, managers are looking for organisational designs with efficient and effective flexible work arrangements. They're using options such as telecommuting, compressed work weeks, flexitime and job sharing.

Discussion questions

7.1 Discuss what is meant by the term *organisational design.*
7.2 Describe the traditional and contemporary views of each of the six key elements of organisational design.
7.3 *Can* an organisation's structure be changed quickly? Why or why not? *Should* it be changed quickly? Why or why not?
7.4 'Small organisations don't really need a formal structure.' Do you agree of disagree with this statement? Explain.
7.5 Most organisations now operate in dynamic and fluid environments, for which organic organisational structures are most suitable. Yet, mechanistic and bureaucratic structures are still very common. Why do you think that is?
7.6 Explain the contingency factors that affect organisational design.
7.7 Why would organisations that use a boundaryless structure need to be especially good at organisational design, delegation and control?
7.8 Researchers are now saying that efforts to simplify work tasks actually have negative results for both companies and their employees. Do you agree? Why or why not?
7.9 What advantages does an organisation get from outsourcing work through the gig economy? What does it trade off for those advantages?
7.10 How could managers use effective delegation to help employees use flexible work arrangements successfully?

Management skills spotlight: Increasing your power

Managerial jobs come with the power of authority. But sometimes that authority isn't enough to get things done. At other times you may not want to use your formal authority as a means of getting people to do what you want. For example, you may want to rely more on your persuasive skills than the power of your title. So, effective managers increase their power by developing multiple sources of influence.

Experiential exercise

Delegation is a critical management skill. Like any skill, though, you first have to learn it and then practise it to get better at it over time. So, in this exercise you're going to learn how to delegate! To do so, you'll need to work in pairs with a friend or classmate. It'll work best if you take turns . . .

1. You're going to delegate authority to your partner to decide what you're going to have for lunch. To do this, you will need first to determine how much authority you are going to give to your partner. What exactly do you want them to do? How much discretion do they have to determine how to do it? What is the time frame for this task, and when must it be completed by? How will they know if they have done a 'good job' on this task?
2. You then need to communicate your expectations to your partner about what you want them to do and how you want them to do it. What information will they need to do the job well. (For instance, is there any food you're allergic to, or really don't like?) How can you determine whether they have correctly understood what you want them to do?
3. Now, using the earlier material about delegating effectively, delegate the task to your partner.
4. Now swap roles with your partner and see how they delegate to you.

5. Once you've both completed your tasks and eaten your lunches, reflect on this experience using the following questions:
    a. Describe your experience of delegating to your partner. Did they do what you wanted them to do? Did anything unexpected or surprising occur?
    b. Interpret your experience. Why do you think your partner performed the task the way they did? If things didn't turn out as expected, why do you think that was?
    c. Evaluate your experience using the methods for effective delegation detailed earlier. What did you learn from this experience about delegating effectively?
    d. Apply your learning. How could you apply what you learnt in the future? Next time you delegate a task to someone, what will you do differently? How do you think that will improve the chances of the task being done well?

Case application: Structural renewal at the Australian Red Cross

The Australian Red Cross is one of the country's oldest and largest humanitarian non-profit organisations. Founded in 1914, following the start of World War I, its first focus was on mobilising a vast network of predominantly female volunteers to produce and deliver support products and services to Australian servicemen and their families who were affected by the armed conflict. A century later, in 2015–16, the Australian Red Cross drew upon the efforts of 2,300 staff members, 20,700 volunteers and 19,600 members to achieve its goals, while generating $894 million in revenue.

Over its long history, the Australian Red Cross has needed to adapt its strategic focus, structures and processes in order to remain relevant within a changing competitive and social landscape. Today, it works to empower and protect vulnerable people and communities in Australia and internationally. Its focus is on strengthening disaster and emergency services, increasing international aid and development, working with Aboriginal and Torres Strait Islander peoples, overcoming

social exclusion by providing bridges back into the community, championing international humanitarian law, and addressing the impact of migration.

> $\textbf{New structure} = \text{flexibility} + \text{less duplication}.$

One of the organisation's greatest challenges has been to overhaul its inefficient structure. Historically, it operated using a network of nine divisional boards. Each board was responsible for strategic decision making, the delivery of programs and services, and administrative and support functions in a different state and territory. However, this federated structure resulted in nine separate and divergent sets of structures, systems, policies and processes for service delivery and the management of human and financial resources. In addition, it undermined the organisation's efforts to speak with one voice, and to provide consistent messages across marketing and communication activities. This issue became apparent when different spokespersons across the country provided conflicting information about the organisation's response to the 2004 Indian Ocean tsunami and ways in which the public could support its activities.

Under the leadership of a new president and vice president, the Australian Red Cross radically reorganised its strategic decision-making processes and organisational structure. A fundamental element of these reforms was the transition to a centralised model of decision making. Under this model, the strategic authority of the state and territory divisional boards was transferred to a newly created national board, which

became responsible for managing a number of strategic policy and action areas referred to as National Functions. The organisation's CEO and national executive team are responsible for the implementation of the strategic plan and National Functions set out by the board. The responsibility for the day-to-day management of services and operations at a local level is assumed by the state and territory divisional boards, with their actions ultimately accountable to the national executive team and the CEO. The restructure reflects the goals of the 'One Red Cross' strategy, which is to align all areas of the organisation with a single vision, mission, strategy and culture.

The new management structure has allowed the Australian Red Cross to coordinate its activities across a wide range of functional areas and geographical boundaries. The arrangement, referred to internally as collaborative management, is built upon strong channels of communication between national and state and territory staff members. Reporting arrangements require that state and territory line managers communicate regularly with national staff members. Collaborative relationships also enable state and territory offices to provide input into strategy development. These arrangements ensure that all parties remain up to date on any major operational changes or risks. Now embedded firmly within the 'One Red Cross' culture, collaborative management has enabled the organisation to achieve national standardisation of organisational function, but also to ensure

that program and service delivery is flexible enough to allow for customisation to local conditions and circumstances.

Discussion questions

7.11 Which principles of organisational design has the Australian Red Cross used to develop its organisational structure? How has it used these principles to design the organisation?

7.12 What kind(s) of organisational structure does the Australian Red Cross use?

7.13 How has the ‘One Red Cross’ strategy and environment influenced the organisation’s structure?

7.14 How could the Australian Red Cross use its organisational design to encourage a learning organisation?

Running case: Holiday home helpers: Designed for success?

By the end of her first week, Mia had started to identify a few ways in which her region could be reorganised to do things more efficiently and effectively. She decided that she'd best find out how much scope she had for redesign!

The following Monday, she called the CEO.

'Skylar, thanks for making time to speak with me today,' she said. 'I have a few ideas already about streamlining operations in my region, but I wanted to check with you how I need to align things with the rest of HHH, and how much scope there is to do things differently from the other regions.'

'You actually have quite a lot of scope to do that,' said Skylar. 'As you know, each regional manager answers to the top management team here at headquarters. We basically take responsibility for all the aspects of the organisation's operations on which there has to be consistency between regions. So, we determine the overall direction for the company and overarching policy on things like strategic goals and plans, ethical management of stakeholder relationships, and organisational values. We also take decisions about

organisation-wide infrastructure, such as which HR information system the company uses, so that we can ensure consistency in the information we get from and send to each region. That said, we do consult with the regions when we make those decisions so that we can choose options that will meet the needs of all the regional operations.

‘As a regional manager, you have the authority for tactical and operational management, because we believe that maximises the company’s responsiveness to local conditions. Every regional branch operates in different local conditions and labour markets, so what will work well in one region may be quite different from what will work best in another one. That’s why we give you the authority to staff your branch however you see fit: so you can determine who you need to hire, how your staff are deployed to provide services to clients, and what checks and controls you will use to make sure your staff maintains company standards for client service.

‘Currently, your regional branch operates with three groups of staff. The first are your cleaners, who either work alone or in teams of two. Your second group is your property management team, which includes your maintenance staff and your client services staff. Your third team is your team of administrative staff. Barry handles admin support for the cleaning team, so he does things like coordinate the laundry services, order cleaning supplies, and so on. Jay is your online support staff member, so he handles all the online bookings that come through and also all promotion and social media for

the company. We do offer a social media management service for your clients, but only a few people use it as most want to manage that side of things themselves. Sierra is your HR person, so she handles everything to do with hiring, firing, training, rostering, pay and safety.

‘Operationally speaking, you have the authority to restructure your teams and the operations within your region as you see fit, but you’ll need to present a rationale for any changes to the top management team and be able to explain exactly how the changes you are making are going to improve the company. We rely heavily on our regional managers to be learning agents. You are our eyes and ears in the region, so we expect you to keep your finger on the pulse of what’s happening in your local area, keep the company informed about any developments that may affect our business, and be able to make good decisions about how to respond to local changes. That includes being able to make good calls about when changes are needed, and when they’re not! We strongly encourage all our regional managers to support each other and learn from each other. We expect everyone to perform well, but we believe in collaboration over competition. So, if your region performs well, we’ll encourage you to help other managers understand how they could achieve similar results.’

Discussion questions

7.15 Describe HHH’s organisational design. How has it used the six principles of organisational structure?

7.16 Does HHH use a mechanistic or an organic organisational form?
7.17 Which contingency factors do you think are influencing HHH's organisational structure?
7.18 What sort of organisational structure does HHH currently use?
7.19 Which contemporary design challenges do you think are most relevant to HHH?

Endnotes

1 C. Sweeney and J. Gosfield, 'No Managers Required: How Zappos Ditched the Old Corporate Structure for Something New', **www.fastcompany.com**, 6 January 2014.

2 C. Sweeney and J. Gosfield, 'No Managers Required: How Zappos Ditched the Old Corporate Structure for Something New', **www.fastcompany.com**, 6 January 2014.

3 D. Richards, 'At Zappos, Culture Pays', **www.strategy-business.com/article**, 24 August 2010.

4 G. Anders, 'No More Bosses for Zappos (A Cautionary Tale)', **jobs.aol.com**/articles, 7 January 2014.

5 A. Growth, 'Zappos Is Going Holacractic: No Job Titles, No Managers, No Hierarchy', *Quartz*, **https://qz.com**, 30 December 2013.

6 R. E. Silverman, 'At Zappos, Some Employees Find Offer to Leave Too Good to Refuse', *Wall Street Journal Online*, 7 May 2015.

7 B. Wolff, 'Three Lessons for Zappos CEO Tony Hsieh from a 250-Year-Old Team', *Forbes Online*, 31 July 2017; Z. Guzman, 'Zappos CEO Tony Hsieh on Getting Rid of Managers', *CNBC Online*, 13 September 2016, pp. 38–49; and J. Reingold, 'How a Radical Shift Left Zappos Reeling', *Fortune Online*, 4 March 2016.

8 R. Grant, B. Butler, H. Hung and S. Orr, *Contemporary Strategic Management: An Australian Perspective* (Brisbane: John Wiley & Sons, 2011), pp. 291–2.

9 S. E. Humphrey, J. D. Nahrgang and F. P. Morgeson, 'Integrating Motivational, Social and Contextual Work Design Features: A Meta-Analytic Summary and Theoretical Expansion of the Work Design Literature', *Journal of Applied Psychology*, September 2007, pp. 1332–56.

10 E. Kelly, 'Keys to Effective Virtual Global Teams', *Academy of Management Executive*, May 2001, pp. 132–3; and D. Ancona, H. Bresman and K. Kaeufer, 'The Comparative Advantage of X-Team', *MIT Sloan Management Review*, Spring 2002, pp. 33–9.

11 R. S. Benchley, 'Following Orders', *Chief Executive*, March 2002, p. 6.

12 R. Preston, 'Inside Out', *Management Today*, September 2001, p. 37; and R. D. Clarke, 'Over their Heads', *Black Enterprise*, December 2000, p. 79.

13 See J. R. P. French and B. Raven, 'The Bases of Social Power', in D. Cartwright and A. F. Zander (eds), *Group Dynamics: Research and Theory* (New York: Harper & Row, 1960), pp. 607–23.

14 D. Cherny, 'Nicole Livingstone appointed head of AFLW', *The Age*, 16 November 2017; and S. Wellington, 'AFLW's New CEO Nicole Livingstone Says Women's Football is Booming', *ABC News*, 17 December 2017.

15 D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 374.

16 L. Urwick, *The Elements of Administration* (New York: Harper & Row, 1944), pp. 52–3. See also J. H. Gittel, 'Supervisory Span, Relational Coordination and Flight Departure Performance: A Reassessment of Post-Bureaucracy Theory', *Organizational Science*, July–August 2001, pp. 468–83.

17 S. Harrison, 'Is there a Right Span of Control? Simon Harrison Assesses the Relevance of the Concept of Span of Control to Modern Businesses', *Business Review*, February 2004, pp. 10–13.

18 See, for example, D. Van Fleet, 'Span of Management Research and Issues', *Academy of Management Journal*, September 1983, pp. 546–52; and S. H. Cady and P. M. Fandt, 'Managing Impressions with Information: A Field Study of Organizational Realities', *Journal of Applied Behavioral Science*, June 2001, pp. 180–204.

19 H. Fayol, *General and Industrial Management*, trans. C. Storrs (London: Pitman Publishing, 1949), pp. 19–42.

20 See P. Kenis and D. Knoke, 'How Organizational Field Networks Shape Inter-Organizational Tie-Formation Rates', *Academy of Management Review*, April 2002, pp. 275–93.

21 E. W. Morrison, 'Doing the Job Well: An Investigation of Pro-Social Rule Breaking', *Journal of Management*, February 2006, pp. 5–28.

22 T. Burns and G. M. Stalker, *The Management of Innovation* (London: Tavistock, 1961).

23 D. Dougherty, 'Re-imagining the Differentiation and Integration of Work for Sustained Product Innovation', *Organization Science*, September/October 2001, pp. 612–31.

24 A. D. Chandler, Jr, *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge, MA: MIT Press, 1962).

25 See, for example, L. L. Bryan and C. I. Joyce, 'Better Strategy through Organizational Design', *The McKinsey Quarterly*, no. 2, 2007, pp. 21–9; D. Jennings and S. Seaman, 'High and Low Levels of

Organizational Adaptation: An Empirical Analysis of Strategy, Structure and Performance', *Strategic Management Journal*, July 1994, pp. 459–75; D. C. Galunic and K. M. Eisenhardt, 'Renewing the Strategy–Structure–Performance Paradigm', in B. M. Staw and L. L. Cummings (eds), *Research in Organizational Behavior*, vol. 16 (Greenwich, CT: JAI Press, 1994), pp. 215–55; R. Parthasarthy and S. P. Sethi, 'Relating Strategy and Structure to Flexible Automation: A Test of Fit and Performance Implications', *Strategic Management Journal*, vol. 14, no. 6 (1993), pp. 529–49; H. A. Simon, 'Strategy and Organizational Evolution', *Strategic Management Journal*, January 1993, pp. 131–42; H. L. Boschken, 'Strategy and Structure: Re-conceiving the Relationship', *Journal of Management*, March 1990, pp. 135–50; D. Miller, 'The Structural and Environmental Correlates of Business Strategy', *Strategic Management Journal*, January–February 1987, pp. 55–76; and R. E. Miles and C. C. Snow, *Organizational Strategy, Structure and Process* (New York: McGraw-Hill, 1978).

26 See, for example, P. M. Blau and R. A. Schoenherr, *The Structure of Organizations* (New York: Basic Books, 1971); D. S. Pugh, 'The Aston Program of Research: Retrospect and Prospect', in A. H. Van de Ven and W. F. Joyce (eds), *Perspectives on Organization Design and Behavior* (New York: John Wiley, 1981), pp. 135–66; and R. Z. Gooding and J. A. Wagner III, 'A Meta-Analytic Review of the Relationship between Size and Performance: The Productivity and Efficiency of Organizations and their Subunits', *Administrative Science Quarterly*, December 1985, pp. 462–81.

27 'Rheem's Next Generation of Commercial Water Heating', *Rheem Commercial Newsletter*, September 2017.

28 J. Woodward, *Industrial Organization: Theory and Practice* (London: Oxford University Press, 1965).

29 J. Woodward, *Industrial Organization: Theory and Practice* (London: Oxford University Press, 1965).

30 Classic Concepts in Today's Organisations box based on J. Woodward, *Industrial Organization: Theory and Practice* (London: Oxford University Press, 1965). Also see, for example, C. Perrow, 'A Framework for the Comparative Analysis of Organizations', *American Sociological Review*, April 1967, pp. 194–208; J. D. Thompson, *Organizations in Action* (New York: McGraw-Hill, 1967); J. Hage and M. Aiken, 'Routine Technology, Social Structure and Organizational Goals', *Administrative Science Quarterly*, September 1969, pp. 366–77; C. C. Miller, W. H. Glick, Y. D. Wang and G. Huber, 'Understanding Technology–Structure Relationships: Theory Development and Meta-Analytic Theory Testing', *Academy of Management Journal*, June 1991, pp. 370–99; D. M. Rousseau and R. A. Cooke, 'Technology and Structure: The Concrete, Abstract and Activity Systems of Organizations', *Journal of Management*, Fall–Winter 1984, pp. 345–61; and D. Gerwin, 'Relationships between Structure and Technology', in P. C. Nystrom and W. H. Starbuck (eds), *Handbook of Organizational Design*, vol. 2 (New York: Oxford University Press, 1981), pp. 3–38.

31 J. C. Linder and S. Cantrell, 'It's All in the Mind(set)', *Across the Board*, May/June 2002, pp. 38–42; and B. Holland, 'Management's Sweet Spot', *New Zealand Management*, March 2002, pp. 60–1.

32 M. Song, 'Samsung Electronics Net Rises 54%', *Wall Street Journal*, 22 April 2002, p. B4.

33 H. Mintzberg, *Structure in Fives: Designing Effective Organizations* (Upper Saddle River, NJ: Prentice Hall, 1983), p. 157.

34 Managing for Sustainability box based on C. Osgood, J. Rue and J. Kho, 'Business Structures and Sustainability: How Are They Connected?', *The Guardian*, 22 November 2013; B. Kennedy, 'Do Family-Owned Businesses Have a Sustainability Advantage?', *The Guardian*, 22 November 2013; N. Kachaner, G. Stalk and A. Bloch, 'What You Can Learn from Family Business', *Harvard Business Review*, **https://hbr.org**, accessed 10 November 2014; and R. Post, 'Sustainability Meets the Bottom Line: A Closer Look at Corporations', *The Guardian*, 22 November 2013.

35 D. A. Garvin and L. C. Levesque, 'The Multiunit Enterprise', *Harvard Business Review*, June 2008, pp. 106–17; and R. J. Williams, J. J. Hoffman and B. T. Lamont, 'The Influence of Top Management Team Characteristics on M-Form Implementation Time', *Journal of Managerial Issues*, Winter 1995, pp. 466–80.

36 D. Samson and R. L. Daft, *Management*, 3rd Asia Pacific edn (Melbourne: Cengage, 2009), p. 382.

37 See, for example, R. Greenwood and D. Miller, 'Tackling Design Anew: Getting Back to the Heart of Organization Theory', *Academy of Management Perspectives*, November 2010, pp. 78–88; G. J. Castrogiovanni, 'Organization Task Environments: Have They Changed Fundamentally over Time?', *Journal of Management*, vol. 28, no. 2 (2002), pp. 129–50; D. F. Twomey, 'Leadership, Organizational Design and Competitiveness for the 21st Century', *Global Competitiveness*, Annual 2002, pp. S31–40; M. Hammer, 'Processed Change: Michael Hammer Sees Process as "the Clark Kent of Business Ideas" – a Concept that Has the Power to Change a

Company's Organizational Design', *Journal of Business Strategy*, November–December 2001, pp. 11–15; T. Clancy, 'Radical Surgery: A View from the Operating Theater', *Academy of Management Executive*, February 1994, pp. 73–8; I. I. Mitroff, R. O. Mason and C. M. Pearson, 'Radical Surgery: What Will Tomorrow's Organizations Look Like?', *Academy of Management Executive*, February 1994, pp. 11–21; and R. E. Hoskisson, C. W. L. Hill and H. Kim, 'The Multidivisional Structure: Organizational Fossil or Source of Value?', *Journal of Management*, vol. 19, no. 2 (1993), pp. 269–98.

38 Q. Hardy, 'Google Thinks Small', *Forbes*, 14 November 2005, pp. 198–202.

39 See, for example, D. R. Denison, S. L. Hart and J. A. Kahn, 'From Chimneys to Cross-Functional Teams: Developing and Validating a Diagnostic Model', *Academy of Management Journal*, December 1996, pp. 1005–23; D. Ray and H. Bronstein, *Teaming Up: Making the Transition to a Self-Directed Team-Based Organization* (New York: McGraw Hill, 1995); J. R. Katzenbach and D. K. Smith, *The Wisdom of Teams* (Boston: Harvard Business School Press, 1993); J. A. Byrne, 'The Horizontal Corporation', *BusinessWeek*, 20 December 1993, pp. 76–81; B. Dumaine, 'Payoff from the New Management', *Fortune*, 13 December 1993, pp. 103–10; and H. Rothman, 'The Power of Empowerment', *Nation's Business*, June 1993, pp. 49–52.

40 C. Garvey, 'Steer Teams with the Right Pay', *HR Magazine*, May 2002, pp. 70–8.

41 Based on 'Production Services', Fox Studios Australia, **www.foxstudiosaustralia.com**, accessed 25 September 2010.

42 See, for example, G. G. Dess, A. M. A. Rasheed, K. J. McLaughlin and R. L. Priem, 'The New Corporate Architecture', *Academy of Management Executive*, August 1995, pp. 7–20.

43 For additional readings on boundaryless organisations, see S. Rausch and J. Birkinshaw, 'Organizational Ambidexterity: Antecedents, Outcomes, and Moderators', *Journal of Management*, June 2008, pp. 375–409; M. F. R. Kets de Vries, 'Leadership Group Coaching in Action: The Zen of Creating High Performance Teams', *Academy of Management Executive*, February 2005, pp. 61–76; J. Child and R. G. McGrath, 'Organizations Unfettered: Organizational Form in an Information-Intensive Economy', *Academy of Management Journal*, December 2001, pp. 1135–48; M. Hammer and S. Stanton, 'How Process Enterprises Really Work', *Harvard Business Review*, November–December 1999, pp. 108–18; T. Zenger and W. Hesterly, 'The Disaggregation of Corporations: Selective Intervention, High-Powered Incentives and Modular Units', *Organization Science*, vol. 8 (1997), pp. 209–22; R. Ashkenas, D. Ulrich, T. Jick and S. Kerr, *The Boundaryless Organization: Breaking the Chains of Organizational Structure* (San Francisco: Jossey-Bass, 1997); R. M. Hodgetts, 'A Conversation with Steve Kerr', *Organizational Dynamics*, Spring 1996, pp. 68–79; and J. Gebhardt, 'The Boundaryless Organization', *Sloan Management Review*, Winter 1996, pp. 117–19. For another view of boundaryless organisations, see B. Victor, 'The Dark Side of the New Organizational Forms: An Editorial Essay', *Organization Science*, November 1994, pp. 479–82.

44 See, for example, Y. Shin, 'A Person–Environment Fit Model for Virtual Organizations', *Journal of Management*, December 2004, pp. 725–43; D. Lyons, 'Smart and Smarter', *Forbes*, 18 March 2002,

pp. 40–1; W. F. Cascio, ‘Managing a Virtual Workplace’, *Academy of Management Executive*, August 2000, pp. 81–90; G. G. Dess, A. M. A. Rasheed, K. J. McLaughlin and R. L. Priem, ‘The New Corporate Architecture’, *Academy of Management Executive*, August 1995, pp. 7–20; H. Chesbrough and D. Teece, ‘When is Virtual Virtuous: Organizing for Innovation’, *Harvard Business Review*, January–February 1996, pp. 65–73; and W. H. Davidow and M. S. Malone, *The Virtual Corporation* (New York: HarperCollins, 1992).

45 R. E. Miles, C. C. Snow, J. A. Matthews, G. Miles and H. J. Coleman, Jr, ‘Organizing in the Knowledge Age: Anticipating the Cellular Form’, *Academy of Management Executive*, November 1997, pp. 7–24; C. Jones, W. Hesterly and S. Borgatti, ‘A General Theory of Network Governance: Exchange Conditions and Social Mechanisms’, *Academy of Management Review*, October 1997, pp. 911–45; R. E. Miles and C. C. Snow, ‘The New Network Firm: A Spherical Structure Built on Human Investment Philosophy’, *Organizational Dynamics*, Spring 1995, pp. 5–18; and R. E. Miles and C. C. Snow, ‘Causes of Failures in Network Organizations’, *California Management Review*, vol. 34, no. 4 (1992), pp. 53–72.

46 G. Hoetker, ‘Do Modular Products Lead to Modular Organizations?’, *Strategic Management Journal*, June 2006, pp. 501–18; C. H. Fine, ‘Are You Modular or Integral?’, *Strategy and Business*, Summer 2005, pp. 44–51; D. A. Ketchen, Jr and G. T. M. Hult, ‘To Be Modular or Not to Be? Some Answers to the Question’, *Academy of Management Executive*, May 2002, pp. 166–7; M. A. Schilling, ‘The Use of Modular Organizational Forms: An Industry-Level Analysis’, *Academy of Management Journal*, December 2001, pp. 1149–68; D. Lei, M. A. Hitt and J. D. Goldhar, ‘Advanced

Manufacturing Technology: Organizational Design and Strategic Flexibility', *Organization Studies*, vol. 17 (1996), pp. 501–23; R. Sanchez and J. Mahoney, 'Modularity Flexibility and Knowledge Management in Product and Organization Design', *Strategic Management Journal*, vol. 17 (1996), pp. 63–76; and R. Sanchez, 'Strategic Flexibility in Product Competition', *Strategic Management Journal*, vol. 16 (1995), pp. 135–59.

47 'We love products', https://thankyou.co/about/we-love-products, accessed 15 January 2021.

48 S. Reed, A. Reinhardt and A. Sains, 'Saving Ericsson', *BusinessWeek*, 11 November 2002, pp. 64–8.

49 Section on the gig economy sourced from 'Australians Flock to Gig Economy for Work', *SBS News*, 18 June 2019; Victorian Department of Premier and Cabinet, 'Inquiry into the Victorian On-Demand Workforce', **https://engage.vic.gov.au/inquiry-on-demand-workforce**, accessed 27 May 2020; C. Hopkins, 'Understanding the "Gig Economy" and the Changing World of Work', **https://www.seek.com.au/employer/hiring-advice/gig-economy-changing-world-work**, accessed 27 May 2020; and N. Kobie, 'What is the Gig Economy and Why is it so Controversial?', *Wired*, 14 September 2018.

50 Victorian Department of Premier and Cabinet, 'Inquiry into the Victorian On-Demand Workforce', **https://engage.vic.gov.au/inquiry-on-demand-workforce**, accessed 27 May 2020.

51 C. Hopkins, 'Understanding the "Gig Economy" and the Changing World of Work', **https://www.seek.com.au/employer/hiring-advice/gig-economy-changing-world-work**, accessed 27 May 2020.

52 Victorian Department of Premier and Cabinet, 'Inquiry into the Victorian On-Demand Workforce', **https://engage.vic.gov.au/inquiry-on-demand-workforce**, accessed 27 May 2020.
53 C. E. Connelly and D. G. Gallagher, 'Emerging Trends in Contingent Work Research', *Journal of Management*, November 2004, pp. 959–83.
54 L. L. Steinmetz, *The Art and Skill of Delegation* (Boston: Addison-Wesley, 1976).
55 Based on P. L. Hunsaker, *Training in Management Skills* (Upper Saddle River, NJ: Prentice Hall, 2001), pp. 135–6, 430–2; R. T. Noel, 'What You Say to Your Employees When You Delegate', *Supervisory Management*, December 1993, p. 13; and S. Caudron, 'Delegate for Results', *Industry Week*, 6 February 1995, pp. 27–30.
56 N. M. Adler, *International Dimensions of Organizational Behavior*, 5th edn (Cincinnati, OH: South-Western), 2008, p. 62.
57 P. B. Smith and M. F. Peterson, 'Demographic Effects on the Use of Vertical Sources of Guidance by Managers in Widely Differing Cultural Contexts', *International Journal of Cross Cultural Management*, April 2005, pp. 5–26.
58 P. Olson, 'Tesco's Landing', *Forbes*, 4 June 2007, pp. 116–18; and P. M. Senge, *The Fifth Discipline: The Art and Practice of Learning Organizations* (New York: Doubleday, 1990).
59 M. Conlin, 'Home Offices: The New Math', *BusinessWeek*, 9 March 2009, pp. 66–8.
60 J. Marquez, 'Connecting a Virtual Workforce', *Workforce Management Online*, 3 February 2009.
61 S. Jayson, 'Working at Home: Family-Friendly', *USA Today*, 15 April 2010, pp. 1A+; T. D. Hecht and N. J. Allen, 'A Longitudinal

Examination of the Work–Nonwork Boundary Strength Construct', *Journal of Organizational Behavior*, October 2009, pp. 839–62; and G. E. Kreiner, E. C. Hollensbe and M. L. Sheep, 'Balancing Borders and Bridges: Negotiating the Work–Home Interface via Boundary Work Tactics', *Academy of Management Journal*, August 2009, pp. 704–30.

62 J. T. Marquez, 'The Future of Flex', *Workforce Management Online*, January 2010.

63 J. Kelly, 'After Announcing Twitter's Permanent Remote-Work Policy, Jack Dorsey Extends Same Courtesy to Square Employees', *Forbes*, 19 May 2020.

64 S. Greenhouse, 'Work-Sharing May Help Companies Avoid Layoffs', *New York Times Online*, 16 June 2009.

65 L. D'Angelo Fisher, 'Inside the New Talent War', *BRW*, 8–14 August 2013, pp. 15–20; 'About SAP', **www.sap.com**, accessed 12 December 2014; *SAP Annual Report 2013*, **http://global.sap.com**, accessed 12 December 2014; J. Saarinen, 'SAP to Restructure Worldwide', *IT News*, 14 May 2014; 'SAP Facts and Information', **https://www.sap.com/corporate/en/company.html**, accessed 11 October 2017; and 'SAP Worldwide locations', **https://www.sap.com/corporate/en/company.worldwide-locations.html**, accessed 11 October 2017.

Chapter 8 Managing work groups and teams

Fact or fiction?

Teams almost always outperform employees working individually.

Fiction

Based on reports in business periodicals, you'd think that every organisation has restructured itself around teams. It's become almost an article of faith that team-based organisations will always outperform the more traditional organisations that are designed around individuals. As you'll see in this chapter, ***teams can be very effective devices for accomplishing tasks. But one size doesn't fit all!*** For tasks that demand leaps in creative thinking, individuals will often outperform teams. Additionally, teams can dilute responsibility – which can lead to the taking of outsized risks and allow contributors to hide behind the work of others.

Managers today believe that the use of teams allows their organisations to increase sales or produce better products faster and at lower cost. Although efforts to create teams aren't always successful, well-planned teams can reinvigorate productivity and better position an organisation to deal with a rapidly changing environment.

You've probably had a lot of experience of working on a team – to complete a class project, to play sport, to raise funds for a charity or to generate sales at work. Work teams are one of the realities – and challenges – of managing in today's dynamic global environment. Many organisations have made the move to restructure work around teams rather than individuals. Why? What do these teams look like? And how can managers build effective teams? These are some of the questions we'll be answering in this chapter. To give you an idea of what we'll be looking at, read the opening case study about teams at Microsoft.

Learning outcomes

8.1 Define a group, and describe the stages of group development.

8.2 Describe the main concepts of group behaviour.

8.3 Discuss how groups are turned into effective teams.

8.4 Discuss contemporary issues in managing teams.

Team effectiveness at Microsoft

When Microsoft started investigating how to make its build teams more effective, the company learnt that being good at what you do doesn't guarantee you'll be good at doing it in a team.

Paolo Bona/Shutterstock.com

Ever since Microsoft was founded in 1975, the company has pursued a big dream: to 'empower every person and every organization on the planet to achieve more'.[1] By maintaining its position at the forefront of software development, the company has developed some of the biggest game-changers in personal computing, from MS-DOS to Windows to Internet Explorer. Software development is very much a team effort, and arguably the most important teams in a software development company are the build teams. Build is the process of creating software from source code, and it's an

essential activity in software development.[2] This means that any company in software development relies heavily on the effectiveness of its software build teams. Strong performance by build teams leads to higher revenue, more successful product launches, greater customer satisfaction and better retention of talented employees.[3] That's why Microsoft has invested a lot of time, energy and money in maximising its build team effectiveness.

Microsoft defines the effectiveness of its build teams as 'how reliably and efficiently the team produces builds'.[4] To understand how to make build teams more effective and enhance their performance, the company first needed to understand how the teams operated, what obstacles they encountered, and how the company could help them overcome those obstacles. Examining these issues helped Microsoft develop two new initiatives to improve build team effectiveness. The first was a new focus on helping strong individuals become strong team players. In the course of researching how the teams did their work, Microsoft learnt that the major impediments to team effectiveness were actually social rather than technical. The members of these build teams are intelligent, knowledgeable and hard-working individuals who are very good at what they do. But in a team setting, those strengths weren't always translating to high performance.

The second initiative was the creation of a 'Role Excellence (RolEx) function'.[5] RolEx is part of the company's operational

structure. It’s not associated with the HR or talent management functions, but it complements them. HR functions on having the right people in the right place at the right time, and RolEx makes sure that those people are able to function at high levels of performance once they’re in place. Team members are given the integrated support they need to do what they’re hired to do. What this means for the software build teams is that they have the tools they need to develop and release new software products on time and on budget.

What is a group, and what stages of development do groups go through?

> Learning outcome 8.1 Define a group, and describe the stages of group development.

Managers would like their work groups to be successful at their tasks. The first step in achieving this goal is to understand what a group is and how groups develop.

What is a group?

A **group** is defined as two or more interacting and interdependent individuals who come together to achieve specific goals. *Formal groups* are work groups that are defined by the organisation's structure and have designated work assignments and specific tasks directed at accomplishing organisational goals. **Table 8.1** provides some examples. *Informal groups* are social groups. These groups occur naturally in the workplace and tend to form around friendships and common interests. For example, five employees from different departments who regularly eat lunch together are an informal group.

Table 8.1 Examples of formal work groups

group

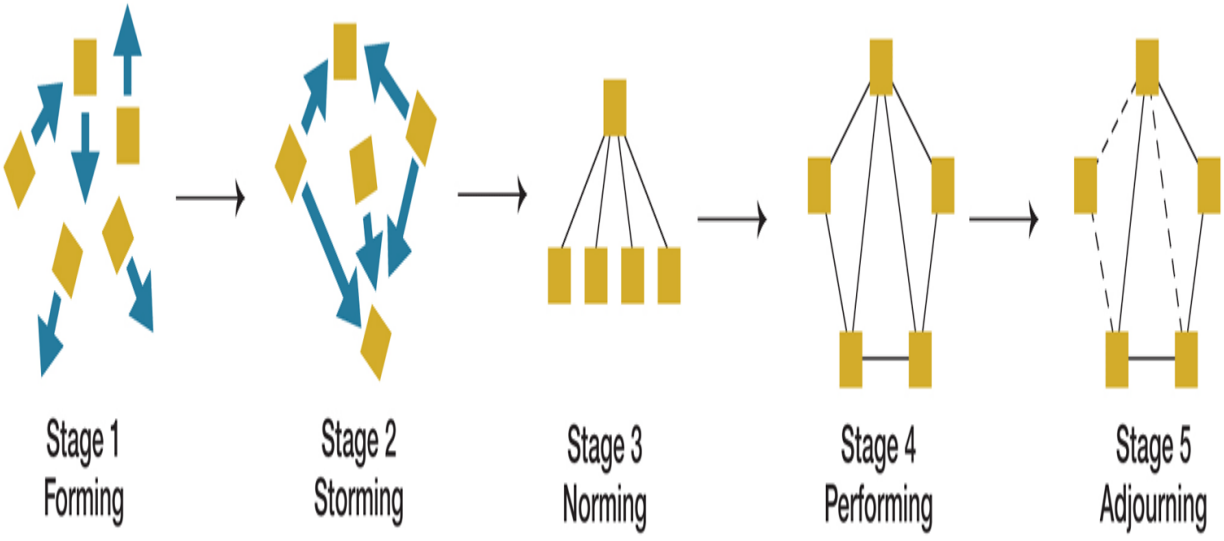
Two or more interacting and interdependent individuals who come together to achieve specific goals

What are the stages of group development?

> **Five stages** of group development.

Research shows that groups develop through five stages.[6] As shown in **Figure 8.1**, these five stages are: *forming, storming, norming, performing* and *adjourning*.

Figure 8.1 Stages of group development



The **forming stage** has two phases. The first occurs as people join the group. In a formal group, people join because of some work assignment. Once they've joined, the second phase begins: defining the group's purpose, structure and leadership. This phase involves a great deal of uncertainty as members 'test the waters' to determine

what types of behaviour are acceptable. This stage is complete when members begin to think of themselves as part of a group.

> ***forming stage***
>
> The first stage of group development in which people join the group and then define the group's purpose, structure and leadership

The **storming stage** is appropriately named because of the intragroup conflict. There's conflict over who will control the group and what the group needs to be doing. When this stage is complete, a relatively clear hierarchy of leadership and agreement on the group's direction will be evident.

> ***storming stage***
>
> The second stage of group development, which is characterised by intragroup conflict

The **norming stage** is one in which close relationships develop and the group becomes cohesive. The group now demonstrates a strong

sense of group identity and camaraderie. This stage is complete when the group structure solidifies and the group has assimilated a common set of expectations (or norms) regarding member behaviour.

> ***norming stage***
>
> The third stage of group development, which is characterised by close relationships and cohesiveness

The fourth stage is the **performing stage**. The group structure is in place and accepted by group members. Their energies have moved from getting to know and understand each other to working on the group's task. This is the last stage of development for permanent work groups. However, for temporary groups – project teams, task forces or similar groups that have a limited task to do – the final stage is the **adjourning stage**. In this stage, the group prepares to disband. Attention is focused on wrapping up activities instead of task performance. Group members react in different ways. Some are upbeat, thrilled about the group's accomplishments. Others may be sad over the loss of camaraderie and friendships.

> ***performing stage***

The fourth stage of group development, when the group is fully functional and works on the group task

adjourning stage

The final stage of group development for temporary groups, during which groups prepare to disband

Think of a class project you've been involved in and you've probably experienced these stages first-hand. Group members are selected or assigned and then meet for the first time. There's a 'feeling-out' period to assess what the group is going to do and how it's going to be done. This is usually followed by a battle for control: Who's going to be in charge? Once this issue is resolved and a 'hierarchy' has been agreed on, the group identifies specific work that needs to be done, who's going to do each part of the project, and dates by which the assigned work needs to be completed. General expectations are established. These decisions form the foundation for what you hope will be a coordinated group effort culminating in a project that's been done well. Once the project is complete and turned in, the group breaks up. Of course, some groups don't get much beyond the forming or storming stages. These groups may have serious

interpersonal conflicts, turn in disappointing work and get lower grades.

Ashwini Asokan (pictured on right) is co-founder and CEO of Mad Street Den Systems, a computer visions and artificial intelligence (AI) firm launched in Chennai, India, in 2013. Now in the performing stage of group development, Asokan and her employees are focused on designing visual search technology and AI-assisted tools for online fashion retailers that analyse consumer data, predict consumer demand and improve shoppers' buying experiences.

Hemant Mishra/Getty Images

So, *does a group become more effective as it progresses through the first four stages?* Some researchers say yes, but it's not that simple.[7] This assumption may be generally true, but what makes a group effective is a complex issue. Here's why:

- Under some conditions, high levels of conflict are conducive to high levels of group performance; that is, there might be situations in which groups in the storming stage outperform those in the norming or performing stages.
- Groups don't always proceed sequentially from one stage to the next. Sometimes, groups are storming and performing at the same time. Occasionally, they even regress to previous stages.
- Don't assume that all groups follow this process precisely or that performing is always the most preferable stage.

Think of this group stages model as a general framework that underscores the fact that groups are dynamic entities and managers need to know the stage a group is in so they can understand the problems and issues that are most likely to surface.

What are the main concepts of group behaviour?

> Learning outcome 8.2 Describe the main concepts of group behaviour.

The basic foundation for understanding group behaviour includes roles, norms and conformity, status systems, group size and group cohesiveness. Let’s take a closer look at each of those aspects.

What are roles?

We introduced the concept of roles when we discussed what managers do. A **role** is the behaviour patterns expected of someone who occupies a given position in a social unit. The concept of roles applies to all employees in organisations, and to their lives outside the organisation as well. Individuals play multiple roles, adjusting them to the group to which they belong at the time. In an organisation, employees attempt to determine what behaviours are expected of them in the roles they perform by reading their job descriptions, getting suggestions from their bosses and watching what their co-workers do. When an individual is confronted by divergent role expectations, they experience role conflict. For example, newly hired university lecturers experience conflict when they find that students want them to give out lots of high grades to enhance the students' grade point averages but other lecturers want them to give out only a few high grades in order to maintain the department's reputation for high standards. To the degree that the instructors sincerely seek to satisfy the expectations of both their colleagues and their students, they face role conflict.

role

Behaviour patterns expected of someone who occupies a given position in a social unit

How do norms and conformity affect group behaviour?

All groups have established **norms**, acceptable standards that are shared by the group's members. Norms dictate output levels, absenteeism rates, promptness or tardiness, the amount of socialising allowed on the job, and so on. Although each group has its own unique set of norms, common classes of norms appear in most organisations and focus on dress, loyalty, effort and performance.

> ***norms***
>
> Standards or expectations that are accepted and shared by a group's members

Some organisations have formal *dress codes* – even describing what's considered acceptable for corporate casual dress. However, even in the absence of codes, norms frequently develop to dictate the kind of clothing that should be worn to work. For example, group norms in a finance company might dictate that staff who have little direct customer contact come to work dressed casually. However, on occasion, a newly hired employee will come to work dressed in a

suit. They are then teased and pressured until their dress conforms to the group's standard.

Loyalty norms relate to the expression of commitment to the organisation. Few managers appreciate employees who ridicule the organisation. Similarly, professional employees and those in the executive ranks recognise that most employers view persons who openly look for another job unfavourably. People who are unhappy know that they should keep their job searches secret. These examples demonstrate that *loyalty norms* are widespread in organisations. This concern for demonstrating loyalty, by the way, often explains why ambitious aspirants to top management positions willingly take work home at night, come in on weekends, and accept transfers to cities in which they would otherwise prefer not to live.

Probably the most widespread norms are related to levels of *effort and performance*. Work groups typically provide their members with explicit cues on how hard to work, what level of output to have, when to look busy, when it's acceptable to slack off, and the like. These norms are extremely powerful in affecting an individual employee's performance. They're so powerful, in fact, that performance predictions based solely on an employee's ability and level of personal motivation often prove wrong.

Because individuals desire acceptance by the groups to which they belong, they're susceptible to conformity pressures. The impact of group pressures for conformity on an individual member's judgment and attitudes was demonstrated in the classic studies by Solomon

Asch.[8] Asch's results suggest that group norms press us towards conformity. We desire to be one of the group and to avoid being visibly different. We can generalise this finding to say that when an individual's opinion of objective data differs significantly from that of others in the group, they feel extensive pressure to align their opinion to conform with those of the others. (See our previous discussion on groupthink.) The Classic Concepts in Today's Organisations box has additional background information on Asch's contributions to group theory.

What is status, and why is it important?

Status is a prestige grading, position or rank within a group. As far back as scientists have been able to trace human groupings, they've found status hierarchies: tribal chiefs and their followers, nobles and peasants, the haves and the have-nots. Status systems are important factors in understanding behaviour. Status is a significant motivator that has behavioural consequences when individuals see a disparity between what they perceive their status to be and what others perceive it to be.

> ***status***
>
> A prestige grading, position or rank within a group

Status may be informally conferred by characteristics such as education, age, skill or experience. However, anything can have status value if others in the group admire it. Of course, just because status is informal doesn't mean that it's unimportant or that there's disagreement on who has it or who doesn't. Members of groups have

no problem placing people into status categories, and they usually agree about who's high, low and in the middle.

It's important for employees to believe that the organisation's formal status system is congruent. That is, there should be equity between the perceived ranking of an individual and the status symbols they are given by the organisation. For example, incongruence may occur when a supervisor earns less than their employees or when a desirable office is occupied by a lower-ranking individual. Employees may view such cases as a disruption to the general pattern of order and consistency in the organisation.

Classic concepts in today's organisations: Have you ever been pressured by a group to conform?

- Does the desire to be accepted as a part of a group leave one susceptible to conforming to the group's norms?
- Will a group exert pressure that's strong enough to change a member's attitude and behaviour?

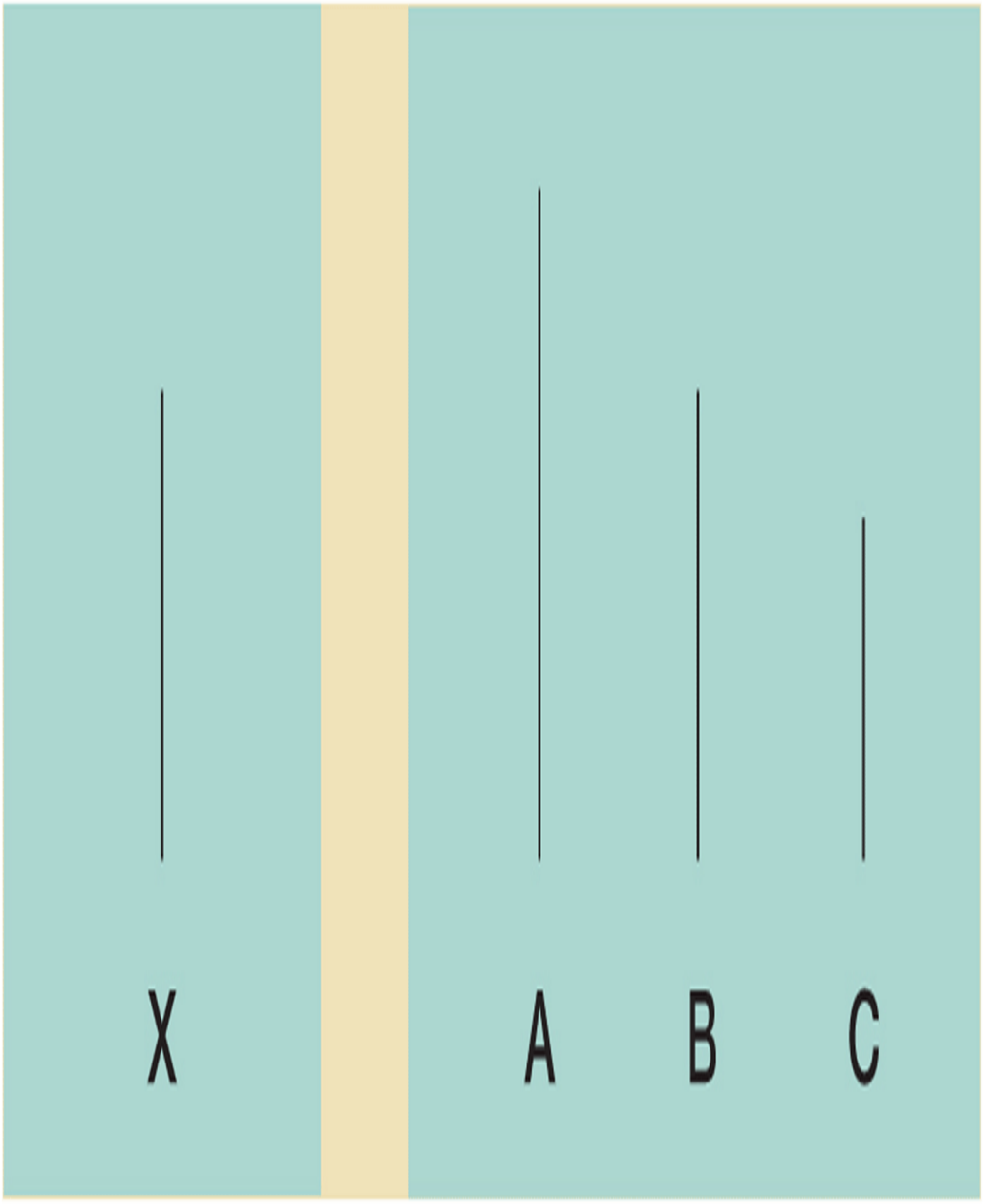
That's what Solomon Asch wanted to know, and according to his research, the answer appears to be yes.[9]

Asch's research

- Study involved groups of seven or eight people who sat in a classroom and were asked to compare two cards held by an investigator. The object was for each group member to announce aloud which of the three lines matched the single line.
- One card had one line; the other had three lines of varying length. One of the lines on the three-line card was identical

to the line on the one-line card and the difference in line length was quite obvious (see **Figure 8.2**).

Figure 8.2 Examples of cards used in Asch's study



- Under ordinary conditions, subjects made errors of less than 1 per cent.

> BUT . . . what happens if members of the group begin to give incorrect answers? Will the pressure to conform cause an unsuspecting subject (USS) to alter their answers to align with those of the others?

- The group was seated in a prearranged way so the USS was the last to announce their decision and so was unaware that the experiment was fixed.
- The experiment began with two sets of matching exercises in which all the subjects gave the right answers.
- On the third set, however, the first subject gave an obviously wrong answer – for example, saying 'C' in **Figure 8.2**. The next subject gave the same wrong answer, and so did the others, until it was the unsuspecting subject's turn.
- The USS knew that 'B' was the same as 'X' but everyone else said 'C'.
- The decision confronting the USS was this: Do you publicly state a perception that differs from the pre-announced position of the others? Or do you give an answer that you strongly believe to be incorrect in order to have your response agree with the other group members?
- Asch's subjects conformed – that is, gave answers they knew were wrong but were consistent with the replies of other group members – in about 35 per cent of many experiments and many trials.

Implications for managers

The Asch study provides considerable insight into group behaviours. The tendency, as Asch showed, is for individual members to go along with the pack. To diminish the negative aspects of conformity, managers should create a climate of openness in which employees are free to discuss problems without fear of retaliation.

Discuss this

- Many people belong to online groups whose members they never meet in person. Do you think the desire to be accepted as a part of a group leave one susceptible to conforming to the group's norms in online groups? Will a group exert pressure that's strong enough to change a member's attitude and behaviour?
- What can you use from this discussion to help you be a better manager? Would you use these ideas the same way to manage face-to-face teams and virtual teams?

Does group size affect group behaviour?

The size of a group affects that group's behaviour. However, that effect depends on what criteria you're looking at.[10]

The evidence indicates, for example, that small groups complete tasks faster than larger ones. However, if a group is engaged in problem solving, large groups consistently get better marks than their smaller counterparts. Translating these results into specific numbers is a bit trickier, but we can offer some parameters. Large groups – with a dozen or more members – are good for gaining diverse input. Thus, if the goal of the group is to find facts, larger groups should be more effective. On the other hand, smaller groups are better at doing something productive with those facts. Groups of approximately five to seven members tend to act more effectively.

One of the more disturbing findings is that, as groups get incrementally larger, the contribution of individual members often tends to lessen. That is, although the total productivity of a group of four is generally greater than that of a group of three, the individual productivity of each group member declines as the group expands. Thus, a group of four will tend to produce at a level of less than four times the average individual performance. The best explanation for this reduction of effort is that dispersion of responsibility encourages

individuals to slack off; a behaviour referred to as **social loafing**.[11] When the results of the group can't be attributed to any single person, the relationship between an individual's input and the group's output is clouded. In such situations, individuals may be tempted to become 'free riders' and coast on the group's efforts. In other words, efficiency is reduced when individuals think that their contributions cannot be measured. The obvious conclusion from this finding is that managers who use work groups should also provide a means by which individual efforts can be identified.

social loafing

The tendency for individuals to expend less effort when working collectively than when working individually

Are cohesive groups more effective?

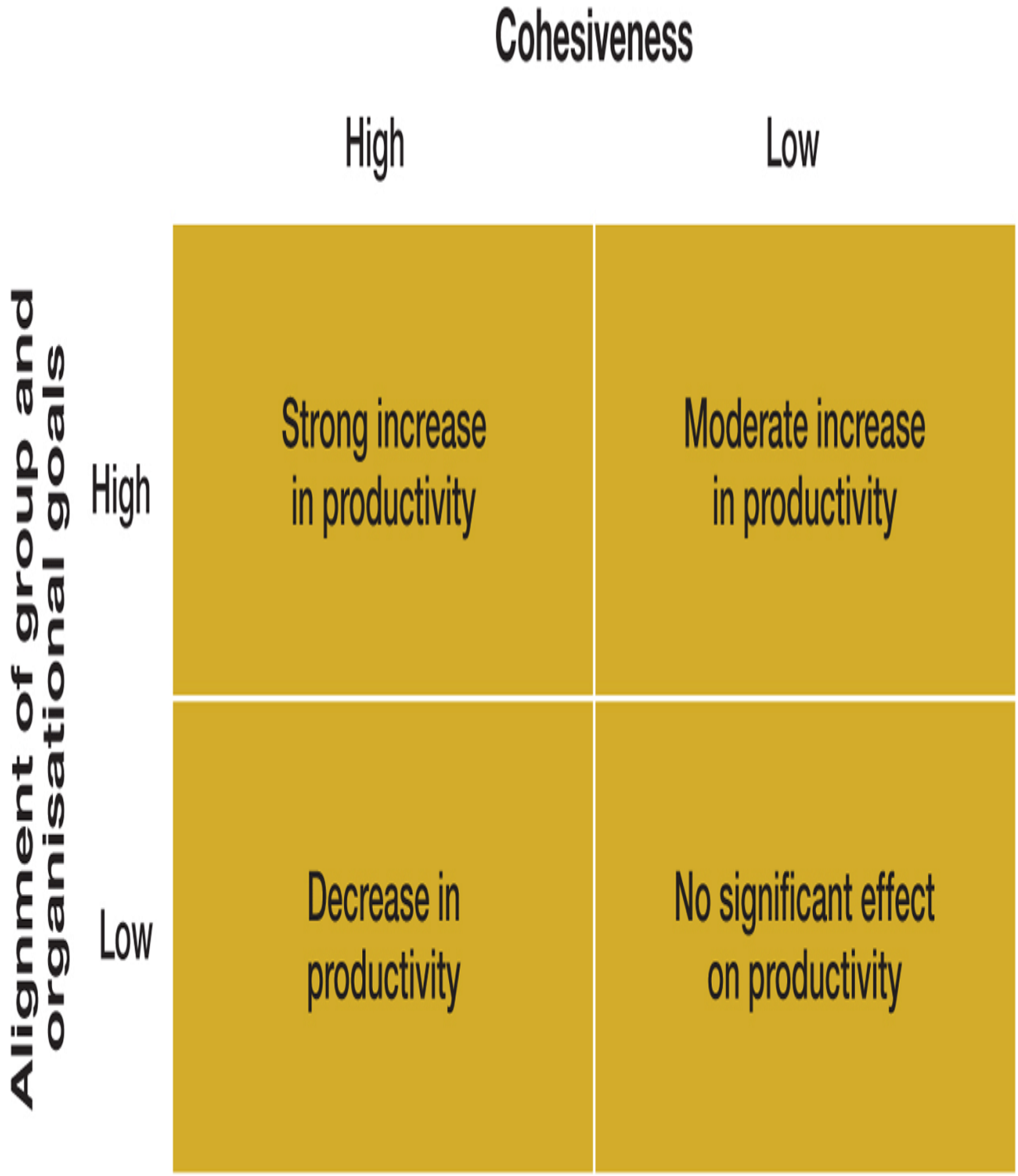
Intuitively, it makes sense that groups that experience a lot of internal disagreement and lack of cooperation are less effective than are groups in which individuals generally agree, cooperate and like each other. **Group cohesiveness** is the degree to which members are motivated to remain in a group and share its goals.[12] The stronger members' desire to stay in the group and the more that a group's goals align with each individual's goals, the greater the group's cohesiveness.

> ***group cohesiveness***
>
> The degree to which members are motivated to remain in a group and share its goals

Previous research has generally shown that highly cohesive groups are more effective than are those with less cohesiveness, but the relationship between cohesiveness and effectiveness is more complex.[13] A key moderating variable is the degree to which the

group's attitude aligns with its formal goals or those of the larger organisation.[14] The more cohesive a group is, the more its members will follow its goals. If these goals are favourable (e.g. high output, quality work, cooperation with individuals outside the group), a cohesive group is more productive than a less cohesive group. But if cohesiveness is high and attitudes are unfavourable, productivity decreases. If cohesiveness is low and goals are supported, productivity increases, but not as much as when both cohesiveness and support are high. When cohesiveness is low and goals aren't supported, cohesiveness has no significant effect on productivity. These conclusions are summarised in **Figure 8.3**.

Figure 8.3 Group cohesiveness and productivity


Cohesiveness
High
Low
Alignment of group and organisational goals
High
Low
Strong increase in productivity
Moderate increase in productivity
Decrease in productivity
No significant effect on productivity

Managing for sustainability: Green teams

Green Teams are used by many organisations to help them manage for sustainability.[15] Green Teams are groups of employees that collaborate together to improve sustainability outcomes in their organisations. Some Green Teams are formally organised by top management as a forum for improving sustainability. Others begin as self-organising groups that become more formally organised as they grow. For example, eBay's Green Team was created when a few employees hosted a pizza lunch for people interested in sustainability and 75 people showed up. Engaged and productive Green Teams can help their organisations develop and implement sustainability policies and facilitate cultural change around waste reduction and better resource usage. In these ways, they can also help their organisations reduce costs and improve their reputations. But many Green Teams often stagnate after a year because they lack focus, skills and organisational support. How can this be avoided? By operating the Green Team around four key principles:

- Clearly define the purpose and focus of the team. Set specific goals for the areas of sustainable practice the

team will focus on (e.g. reducing energy usage, increasing the recycling of resources and equipment), define tasks and time frames, and identify key stakeholders from whom the team will need to recruit support.

- Establish a structure for action and reporting. Ensure that team members understand their roles and responsibilities, and consider establishing a rotating chair or note taker to help the team record and implement its decisions so that things actually get done!
- Ask the CEO or managing director to join the team, or at least to attend a few team meetings each year. Ensure that line managers and the HR manager support team members being involved in the Green Team. Ask for support in communicating the Green Team's ideas and initiatives to the rest of the organisation so that people know what the team is doing and can provide support.
- Ensure that team successes are shared and celebrated, within the team and with the rest of the organisation.

How are groups turned into effective teams?

Learning outcome 8.3 Discuss how groups are turned into effective teams.

When companies such as Volvo and Kraft Foods introduced teams into their production processes, it made news because no one else was doing it. Today, it's just the opposite – the organisation that *doesn't* use teams would be newsworthy. In fact, in a recent study by Deloitte of over 7,000 companies in 130 countries, 92 per cent of the companies surveyed said the key challenge they faced was redesigning the way their organisation worked in order to become a 'network of teams'.[16] Teams are likely to continue to be popular. Why? Research suggests that teams typically outperform individuals when the tasks being done require multiple skills, judgment and experience.[17] Organisations are using team-based structures because they've found that teams are more flexible and responsive to changing events than are traditional departments or other permanent work groups. Teams have the ability to quickly assemble, deploy, refocus and disband. In this section, we'll discuss what a work team is, the different types of teams that organisations might use, and how to develop and manage work teams.

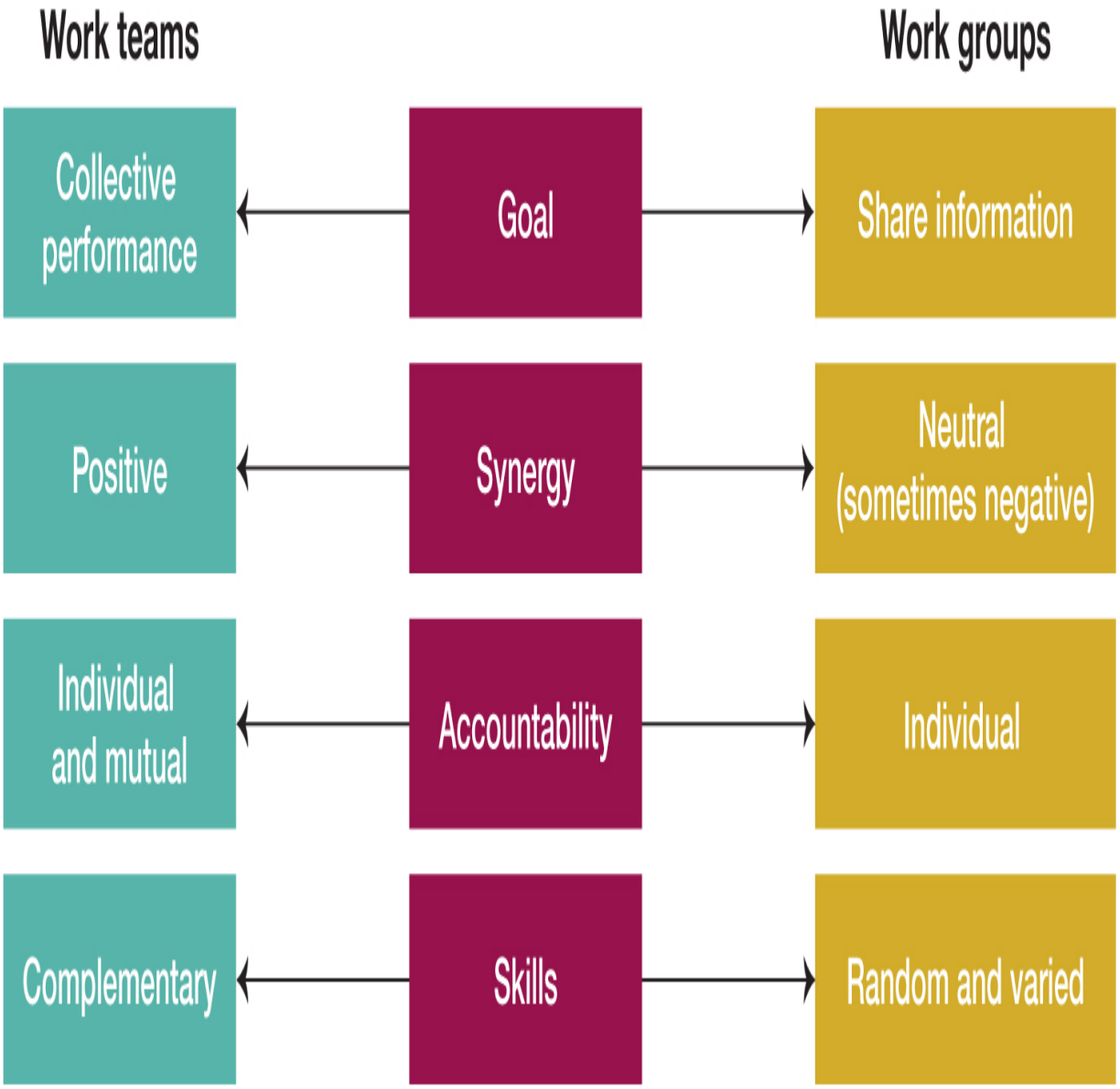
> Work groups = work **teams**?

Are work groups and work teams the same thing?

At this point, you may be asking yourself whether teams and groups are the same thing. The answer is no. In this section, we clarify the difference between a work group and a work team.[18]

Most of you are probably familiar with teams, especially if you've watched or participated in organised sports events. Work *teams* do differ from work *groups* and have their own unique traits (see **Figure 8.4**). Work groups interact primarily to share information and to make decisions to help each member do their job more efficiently and effectively. There's no need or opportunity for work groups to engage in collective work that requires joint effort. On the other hand, **work teams** are groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills.

Figure 8.4 Groups versus teams



work teams

Groups whose members work intensely on specific common goals using their positive synergy, individual and mutual accountability, and complementary skills

These descriptions should help clarify why so many organisations have restructured their work processes around teams. Managers are looking for that positive synergy that will help the organisation improve its performance.[19] The extensive use of teams creates the potential for an organisation to generate greater outputs with no increase in (or even fewer) inputs.

Recognise, however, that such increases are simply ‘potential’. Nothing inherently magical in the creation of work teams guarantees that this positive synergy and its accompanying productivity will occur. Accordingly, merely calling a group a team doesn’t automatically increase its performance.[20] As we show later in this chapter, successful or high-performing work teams have certain common characteristics. If management hopes to gain increases in organisational performance, it will need to ensure that its teams possess those characteristics.

Rethinking management in a global crisis: Teaming up as a leadership group

As the COVID-19 pandemic unfolded in early 2020, Australia's political leaders needed to engage in fast, effective and bipartisan decision making to deal with the developing crisis. To achieve this, on 13 March 2020 the Australian government established a National Cabinet to guide the development of federal and state government responses to COVID-19.[22] The Cabinet comprised the prime minister, the premiers of each Australian state and territory, and their chief medical officers. Initially, it met at least twice a week to consider new data and developments, and to confer with technical and political experts about decisions under consideration. For example, in May 2020 the New Zealand prime minister Jacinda Ardern attended a Cabinet meeting via video link to discuss the possibility of allowing international travel between New Zealand and Australia.

The inclusion of premiers from each Australian state and territory enabled consideration of state-based differences in perspectives on and experience of the disease, and in policy needs and implementation. It also meant that all jurisdictions were equally represented. In Parliament, by contrast, representation is based upon size of population.

As a team, the Cabinet achieved both sharing of information and collective performance in developing new policies and plans. Cabinet members had complementary skills and knowledge with which they could generate positive synergy and take more informed decisions as a collective and in their individual roles as premiers and ministers. Collaboration among Cabinet members enhanced the rigour, coherence and clarity of the Cabinet's decision making and policy development. However, premiers were individually responsible for policy implementation. For instance, in May 2020 when the National Cabinet developed the three-stage plan to roll back social isolation restrictions, the Cabinet decided what would occur in each stage but the premiers determined when their state would engage in each stage. This meant that state-based responses differed markedly, resulting in conflict when the premiers had to justify the differences in their approaches.

What are the different types of work teams?

Teams can do a variety of things. They can design products, provide services, negotiate deals, coordinate projects, offer advice and make decisions.[21] The four most common types of work teams are problem-solving teams, self-managed work teams, cross-functional teams and virtual teams.

- When work teams first became popular, most were **problem-solving teams**, which are teams from the same department or functional area involved in efforts to improve work activities or to solve specific problems. Members share ideas or offer suggestions on how work processes and methods can be improved. However, these teams are rarely given the authority to implement any of their suggested actions.

> ***problem-solving teams***
>
> A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems

- Although problem-solving teams were helpful, they didn't go far enough in getting employees involved in work-related decisions and processes. This need led to another type of team, a **self-managed work team**, which is a formal group of employees who operate without a manager and are responsible for a complete work process or segment. A self-managed team is responsible for getting the work done *and* for managing themselves, and usually includes planning and scheduling of work, assigning tasks to members, collective control over the pace of work, making operating decisions and taking action on problems. For example, teams at Corning have no shift supervisors and work closely with other manufacturing divisions to solve production-line problems and coordinate deadlines and deliveries. The teams have the authority to make and implement decisions, finish projects and address problems.[23] Other organisations such as Xerox, Boeing, PepsiCo and Hewlett-Packard also use self-managed teams. Most organisations that use self-managed teams find them to be effective.[24]

self-managed work team

A type of work team that operates without a manager and is responsible for a complete work process or segment

- The third type of team is the cross-functional team, which we introduced in the chapter on organisational structure and design and defined as a work team composed of individuals from various specialties. Many organisations use cross-functional teams. For example, cross-functional teams work together to improve quality and productivity. Teams can investigate technical or process problems and are empowered to make recommendations and implement changes to improve the company.[25]
- The final type of team is the **virtual team**, which is a team that uses technology to link physically dispersed members in order to achieve a common goal. In a virtual team, members collaborate online using wide-area networks, videoconferencing, online file sharing, email and group chat forums.[26] Virtual teams can do all the things that other teams can – share information, make decisions and complete tasks; however, they lack the normal give-and-take of face-to-face discussions. That's why virtual teams tend to be more task-oriented, especially if the team members have never personally met.

virtual team

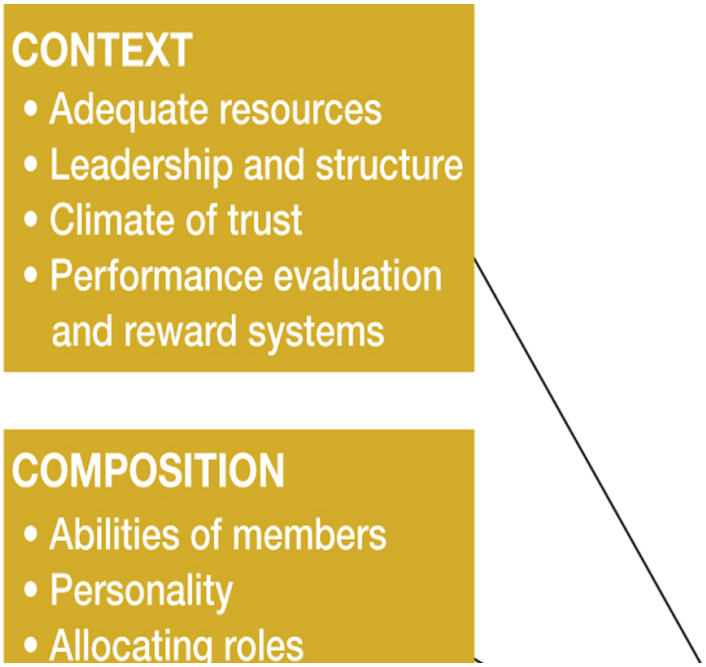
A type of work team that uses technology to link physically dispersed members in order to achieve a common goal

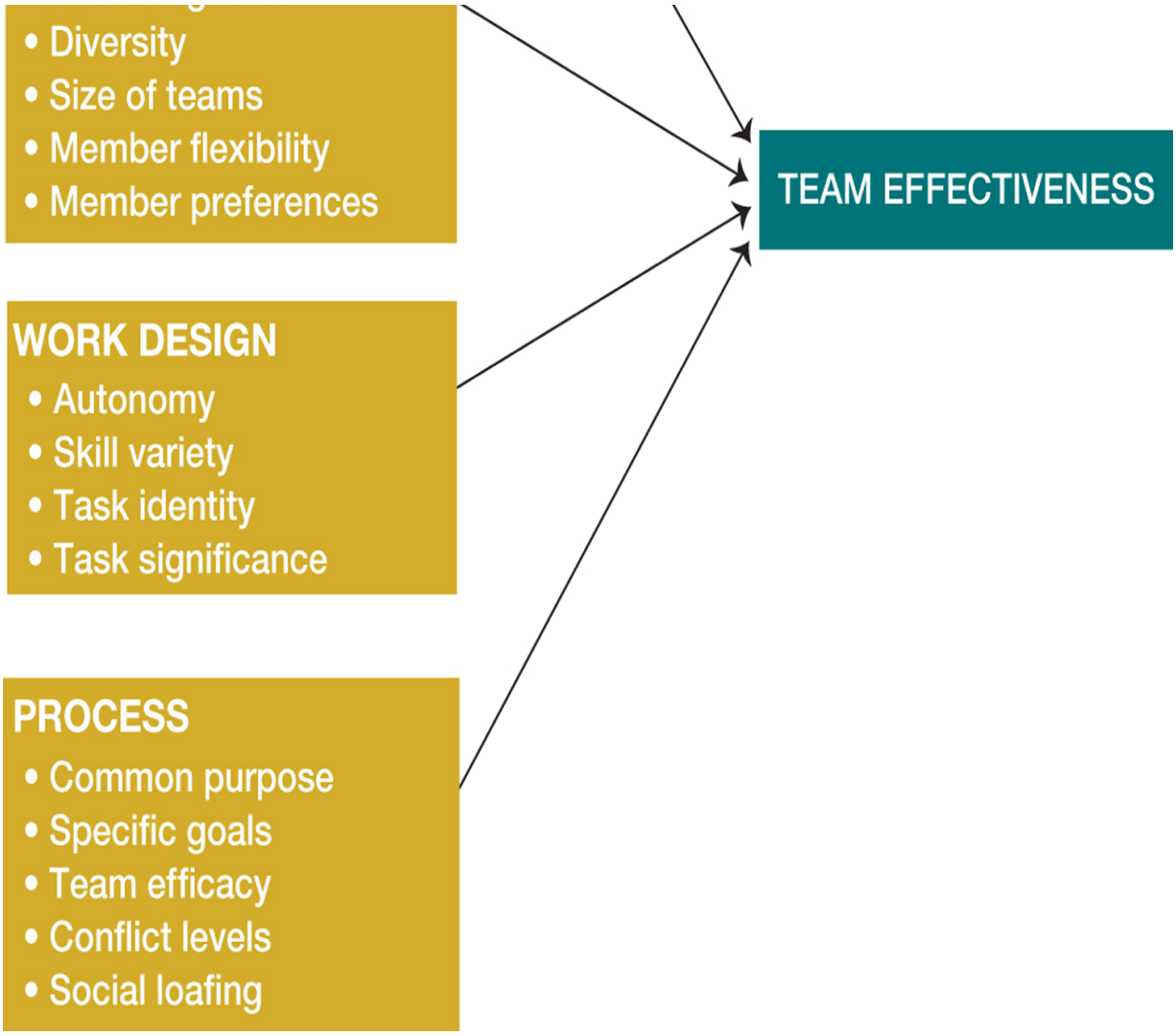
What makes a team effective?

> Making a team **effective**.

Much research has been done on what it is that makes a team effective.[27] Out of these efforts, we now have a fairly focused model identifying those characteristics.[28] **Figure 8.5** summarises what we currently know about what makes a team effective. As we look at this model, keep in mind two things. First, teams differ in form and structure. This model attempts to generalise across all teams, so you should only use it as a guide.[29] Second, the model assumes that managers have already determined that teamwork is preferable to individual work. Creating 'effective' teams in situations in which individuals can do the job better would be wasted effort.

Figure 8.5 Team effectiveness model





Source: S. P. Robbins and T. A. Judge, Organizational Behavior, 14th edn, © 2011. Printed and reproduced electronically by permission of Pearson Education, Inc., Upper Saddle River, NJ.

One thing we need to clarify first before looking at the model is what we mean by 'team effectiveness'. Typically, it includes objective measures of a team's productivity, managers' ratings of the team's performance and aggregate measures of member satisfaction. As you can see from the model, the four key components of effective teams are the context, the team's composition, work design and process variables.

FIRE & RESCUE NSW
FIRE
FIRE & RESCUE
NEW SOUTH WALES

Firefighters from the NSW Rural Fire Brigade work as effective teams to extinguish fires and deal with emergency incidents. Team leaders set the goals for the team (e.g. contain the fire, rescue civilians) and allocate tasks and duties to crew members. Team members communicate constantly about conditions and hazards, which, with extensive training and strong group cohesion, heightens trust and team performance.

ARM Photo Video/Shutterstock.com

What factors in the context appear to make a team effective?

Four contextual factors appear to be most significantly related to team performance. These factors are adequate resources, leadership and structure, a climate of trust, and performance evaluation and reward systems.

As part of the larger organisation system, a team relies on resources outside the group to sustain it. If it doesn't have *adequate resources*, the team's ability to perform its job effectively is reduced. This factor appears to be so important to team performance that one research study concluded that effective work groups must have support from the organisation.[30] Resources can include timely information, proper equipment, encouragement, adequate staffing and administrative assistance.

If a team can't agree on who is to do what or ensure that all members contribute equally in sharing the workload, it won't function properly. Agreeing on the specifics of work and how all the team members' individual skills fit together requires *team leadership and structure*. This aspect can come from the organisation or from the team itself. Even in self-managed teams, a manager's job is to be more of a coach by supporting the team's efforts and managing outside (rather than inside) the team.

Members of effective teams *trust* each other. And they also trust their leaders.[32] Why is trust important? It facilitates cooperation, reduces the need to monitor each other's behaviour, and bonds members around the belief that others on the team won't take advantage of them. Trusting the team leader is also important because it means the team is willing to accept and commit to the leader's goals and decisions.

The final contextual factor of an effective team is a *performance evaluation and reward system.* Team members have to be accountable both individually and jointly. So, in addition to evaluating and rewarding employees for their individual contributions, managers should consider group-based appraisals, profit sharing, and other approaches that reinforce team effort and commitment.

Managing for diversity and inclusion: The challenge of managing diverse work teams

Bringing any group of people together and turning them into a cohesive team is a challenging task. It can be even more challenging when the group is very diverse. But as it happens, three of the factors that create some of these challenges can also actually *help* a team become cohesive and better-performing. They are: social categorisation, similarity attraction and socially shared cognition.[31]

Social categorisation refers to a process people use to group themselves and others in their work group according to similarities and differences between the work group members. Such groupings could be based on any characteristic that group member have: their gender, their functional expertise, their cultural background, even which university they studied at. In these processes, people create in-groups of others who are ‘like me’, and out-groups of others that are not. This affects group functioning because studies have shown that people favour, trust and are more willing to cooperate with their in-group members than with out-group members.

Part of the reason for that is *similarity attraction*: people prefer to work with other people who they perceive to be similar to themselves. This also have flow-through impacts on team performance, as studies have found that greater homogeneity (similarity) within the group is associated with higher group cohesion, lower turnover and higher performance.

Does this mean that diverse groups can't function or perform as well as similar ones? No, it doesn't! Diverse teams can still function and perform very well if they can develop socially shared cognition. *Socially shared cognition* is the degree to which group members share similar understanding of their team and their task. This includes their cognitive understanding of what they are doing, and their beliefs about the task and the team. If team members are similar on this dimension, team performance improves. In fact, studies suggest that this may be an even greater influence on group performance than the demographic or functional diversity of the team.

So, how can team leaders use these influences to help diverse teams become cohesive and higher-performing? The team at GoDaddy, a website improvement service, did it by fostering mutual respect and shared experiences. As their founder recalled, 'When the business was first created, we were doing something that hadn't been done before and we had different backgrounds; different ideas about how to make this work . . . [but] we found a way through with mutual respect for each others' skills.' The team also vowed not to drink until the

> business became profitable, which kept everyone ‘working hard to get to the point where we could break out the bubbly!’.

What team composition factors lead to effectiveness?

Several team composition factors are important to a team’s effectiveness. They include team member abilities, personality, role allocation, diversity, size of teams, member flexibility and member preferences.

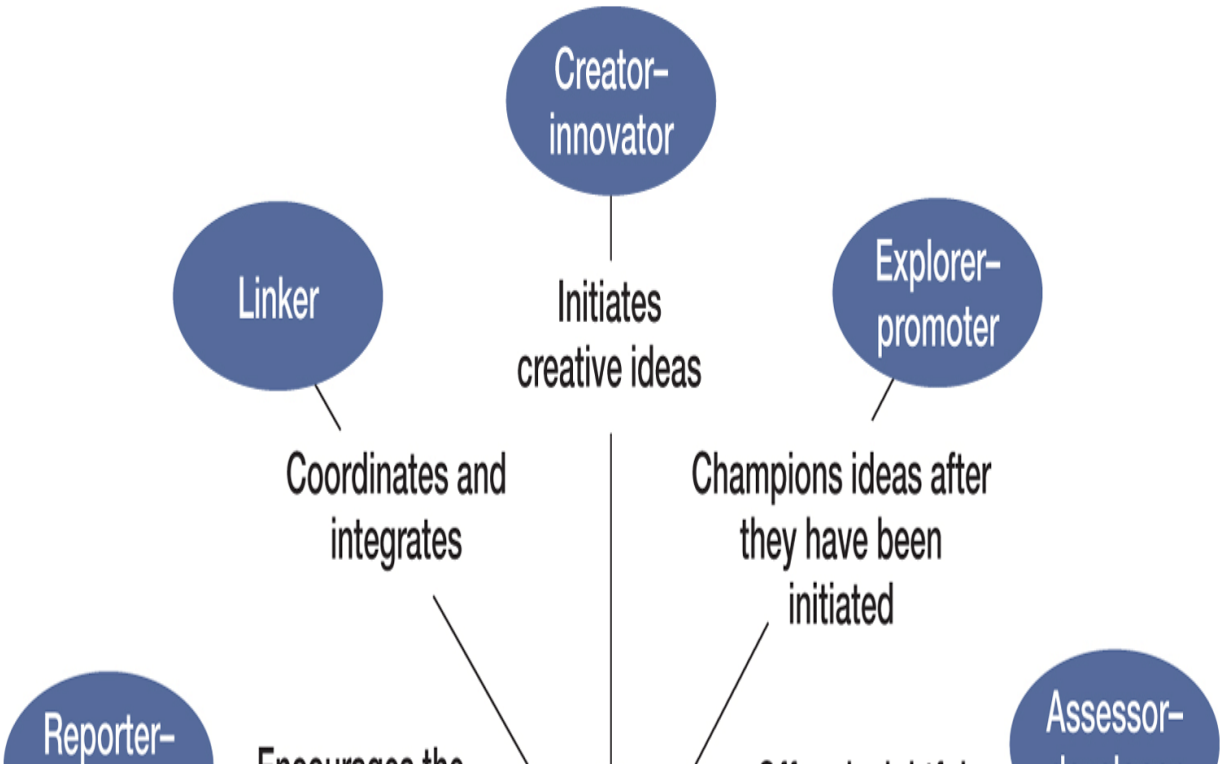
Part of a team’s performance depends on its members’ *knowledge, skills and abilities*.[33] Research has shown that to perform effectively, a team needs three different types of skills. First, it needs people with technical expertise. Next, it needs members with problem-solving and decision-making skills. Finally, a team needs people with interpersonal skills. A team can’t achieve its performance potential if it doesn’t have or can’t develop all these skills. And the right mix of these skills is also critical. Too much of one at the expense of another will lead to lower team performance. However, a team doesn’t necessarily need all these skills immediately. It’s not uncommon for team members to take responsibility for learning the skills in which the group is deficient. That way, a team can achieve its full potential.

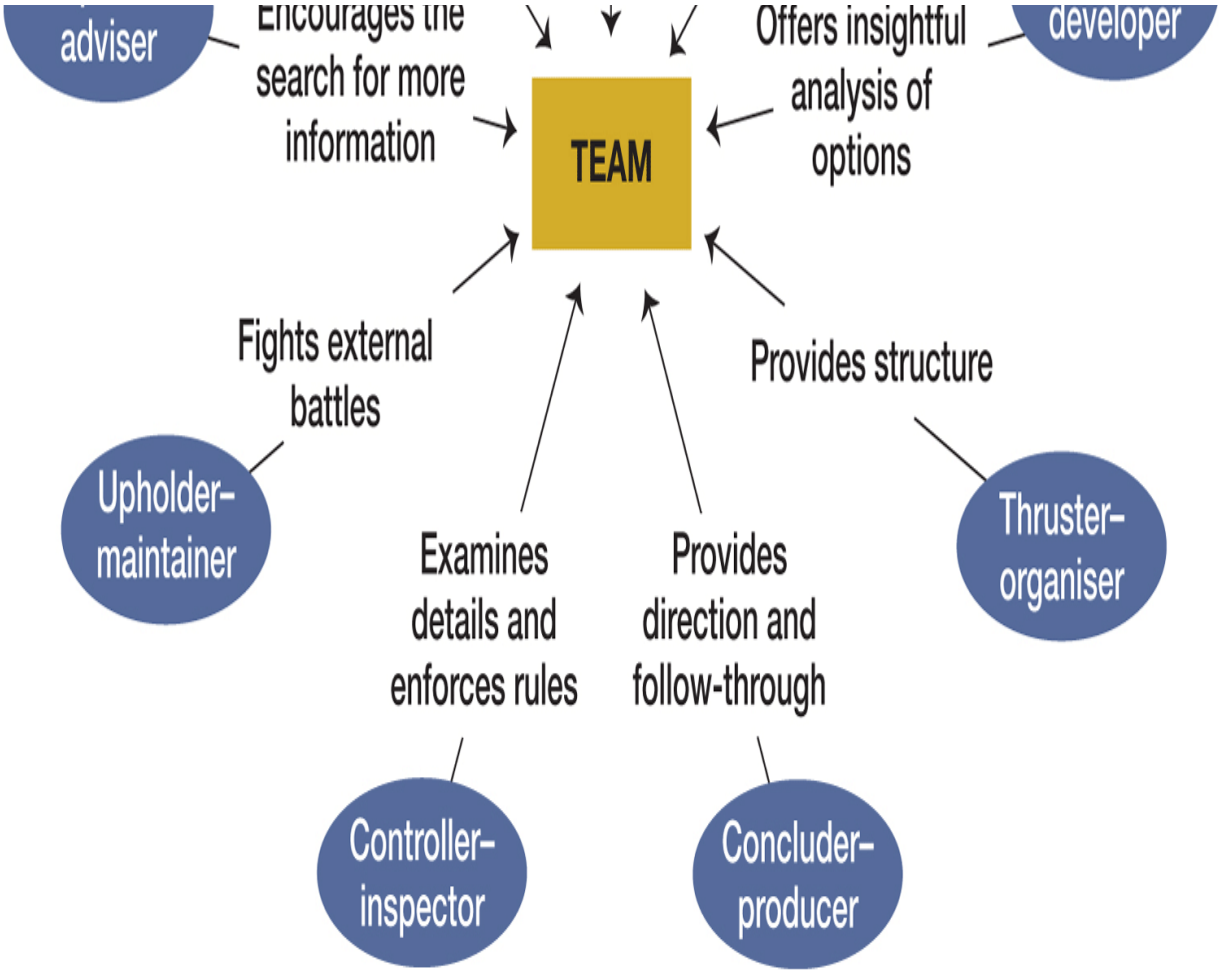
Personality significantly influences both individual and team behaviour. Research has shown that three of the Big Five dimensions (discussed in the chapter on understanding individual behaviour) are relevant to

team effectiveness.[34] For example, high levels of both conscientiousness and openness-to-experience tend to lead to higher team performance. Agreeableness also appears to matter. And teams that had one or more highly disagreeable members performed poorly. Maybe you've had that not-so-good experience in group projects that you've been part of!

Nine potential team *roles* have been identified (see **Figure 8.6**). High-performing work teams have people to fill all these roles who were selected to fulfil these roles based on their skills and preferences.[35] On many teams, individuals may play multiple roles. It's important for managers to understand the individual strengths a person will bring to a team and to select team members with those strengths in mind to ensure that these roles are filled.

Figure 8.6 Team member roles





Source: Based on C. Margerison and D. McCann, Team Management: Practical New Approaches (London: Mercury Books, 1990).

Team *diversity* is another factor that can influence team effectiveness. Although many of us hold the optimistic view that diversity is desirable, research seems to show the opposite. One review found that '[s]tudies on diversity in teams from the last 50 years have shown that surface-level social-category differences such as race/ethnicity, gender, and age tend to . . . have negative effects' on the performance of teams.[36] However, some evidence does show

that the disruptive effects of diversity decline over time, but doesn't confirm that diverse teams perform better eventually.

What *size* should a work team be in order to be effective? At Amazon, work teams have considerable autonomy to innovate and to investigate ideas. As we have seen, Jeff Bezos, the founder, used a 'two pizzas' philosophy; that is, a team should be small enough that it can be fed with two pizzas. This philosophy usually limits groups to five to seven people – depending, of course, on team member appetites![37] Generally speaking, the most effective teams have five to nine members. And experts suggest using the smallest number of people who can do the task.

Team *member preferences* need to be considered. Why? Some people just prefer not to work on teams. Given the option, many employees will opt not to be part of a team. When people who would prefer to work alone are forced on a team, it creates a direct threat to the team's morale and to individual member satisfaction.[38]

A question of ethics: Working out where loyalties lie

When co-workers work closely on a team project, they sometimes come to know quite a lot about each other. This may include personal information about their private lives, their personal relationships, and how they spend their time out of work. It can also include learning about their personality and personal character, and how they ‘operate’ as a person. But what happens when you know so much about a team member that you also know when they have been dishonest with the team? Consider the following scenario.

You are working on a team that oversees quality assurance of company products and services. One of your team members was responsible for collating the information that the team needs to produce an important report and presenting it to the team at the next team meeting. On the day of the meeting, they claim they couldn’t present the information as they have been away on sick leave for the past fortnight. You know they were actually on an overseas holiday. Because they haven’t collated the information by the deadline, the whole team will now have to put in extra effort to complete the report on time.

How does work design affect team effectiveness?

Effective teams need to work together and take collective responsibility for completing tasks. An effective team must be more than a 'team in name only'.[39] Important work design elements include *autonomy*, using a *variety of skills*, being able to complete a *whole and identifiable* task or product, and working on a task or project that has a *significant impact* on others. Research indicates that these characteristics enhance team member motivation and increase team effectiveness.[40]

What team processes are related to team effectiveness?

Five team process variables have been shown to be related to team effectiveness. These include a common purpose, specific team goals, team efficacy, managed conflict and minimal social loafing.

An effective team has a *common plan and purpose.* This common purpose provides direction, momentum and commitment for team members.[41] Members of successful teams put a lot of time and effort into discussing, shaping and agreeing on a purpose that belongs to them both individually and as a team.

Teams also need *specific goals.* Such goals facilitate clear communication and help teams maintain their focus on getting results.

Team efficacy emerges when teams believe in themselves and are confident that they can succeed.[42] Effective teams have confidence in themselves and in their members.

Effective teams need some *conflict.* Conflict on a team isn't necessarily bad and can actually improve team effectiveness.[43] But it has to be the right kind of conflict. Relationship conflicts – those based on interpersonal incompatibilities, tension and autonomy towards others – are almost always dysfunctional. However, task conflicts – those based on disagreements about task content – can be beneficial because they may stimulate discussion, promote critical assessment of problems and options, and can lead to better team decisions.

Finally, effective teams work to minimise the tendency for *social loafing*, which we discussed earlier in this chapter. Successful teams make members individually and jointly accountable for the team's purpose, goals and approach.[44]

How can a manager shape team behaviour?

A manager can do several things to shape a team's behaviour, including proper selection, employee training and rewarding the appropriate team behaviours. Let's look at each of these.

What role does selection play?

Some individuals already possess the interpersonal skills to be effective team players. When hiring team members, managers should check whether applicants have the technical skills required to successfully perform the job *and* whether they can fulfil team roles.

Some applicants may have been socialised around individual contributions and, consequently, lack team skills, which could also be true for some current employees being moved into teams due to organisational restructuring. When faced with this situation, a manager can do several things. First, if a person is woefully lacking in team skills, don't hire them. If successful performance is going to require interaction, it's appropriate again not to hire the individual. On the other hand, an applicant who has some basic skills can be hired on a probationary basis and required to undergo training to shape

them into a team player. If they don't learn or practise these team skills, they may have to be let go.

Can individuals be trained to be team players?

Performing well in a team involves a set of behaviours.[45] As we'll discuss in the chapter on understanding individual behaviour, new behaviours *can* be learnt. Even people who feel strongly about the importance of individual accomplishment can be trained to become team players. Training specialists can conduct exercises so that employees can experience what teamwork is all about. The workshops can cover such topics as team problem solving, communications, negotiations, conflict resolution and coaching skills. In addition, it's not unusual for these individuals to be exposed to the five stages of team development that we discussed earlier.[46] At Verizon Communications, for example, trainers focus on how a team goes through various stages before it gels. And employees are reminded of the importance of patience, because teams take longer to do some things – such as make decisions – than do employees acting alone.[47]

What role do rewards play in shaping team players?

An organisation’s reward system needs to encourage cooperative efforts rather than competitive ones. For example, Lockheed Martin’s aeronautics division organised its 20,000 or so employees into teams. Rewards are structured to return a percentage increase in the bottom line to the team members on the basis of achievements of the team’s performance goals.

Australian Medical Assistance Teams (AUSMAT) are teams of doctors, nurses, firefighters and other health professionals (such as pharmacists and environmental health specialists) who provide life-saving treatment in disaster zones around the world. Individuals who wish to join these teams must complete compulsory training in humanitarian work, disaster response, and the mental and physical challenges of working in disaster zones, as well as practical simulations in which they must plan, prepare and deploy as if they were dealing with a real disaster.[48]

Chris McGrath/Staff/Getty Images

Promotions, pay increases and other forms of recognition should be given to employees who are effective collaborative team members. Taking this approach doesn't mean that individual contribution is ignored, but rather that it's balanced with selfless contributions to the team. Examples of behaviours that should be rewarded include training new colleagues, sharing information with teammates, helping resolve team conflicts and mastering new skills in which the team is deficient.[49] Finally, managers can't forget the inherent rewards that employees can receive from teamwork. Work teams provide

camaraderie. It’s exciting and satisfying to be an integral part of a successful team. The opportunity to engage in personal development and to help teammates grow can be a satisfying and rewarding experience for employees.[50]

What current issues do managers face in managing teams?

Learning outcome 8.4 Discuss contemporary issues in managing teams.

Few trends have influenced how work gets done in organisations as much as the use of work teams. The shift from working alone to working on teams requires employees to cooperate with others, share information, confront differences and sublimate personal interests for the greater good of the team. Managers can build effective teams by understanding what influences performance and satisfaction. However, managers also face some current challenges in managing teams, including those associated with managing global teams and with understanding when teams aren’t the answer.

What's involved with managing global teams?

Two characteristics of today's organisations are obvious: they're global, and work is increasingly being done by teams. Because of those reasons, any manager is likely to have to manage a global team. What do we know about managing global teams? We know there are both drawbacks and benefits in using global teams (see **Table 8.2**). What are some of the challenges associated with managing global teams?

Table 8.2 Global teams

Source: Based on N. Adler, International Dimensions of Organizational Behavior, 4th edn (Cincinnati, OH: Southwestern Cengage Publishing, 2002), pp. 141–7.

How do team composition factors affect managing a global team?

In global organisations, understanding the relationship between team effectiveness and team composition is more challenging because of the unique cultural characteristics represented by members of a global team. In addition to recognising team members' abilities, skills, knowledge and personality, managers need to be familiar with and

clearly understand the cultural characteristics of the groups and the group members they manage.[51] For example, is the global team from a culture in which uncertainty avoidance is high? If so, members won't be comfortable dealing with unpredictable and ambiguous tasks. Also, as managers work with global teams, they need to be aware of the potential for stereotyping, which can lead to problems.

How does team structure affect managing a global team?

Some of the structural areas where we see differences in managing global teams include conformity, status, social loafing and cohesiveness.

Are conformity findings generalisable across cultures? Research suggests that Solomon Asch's findings are culture-bound.[52] For example, as might be expected, conformity to social norms tends to be higher in collectivistic cultures than in individualistic ones. However, groupthink tends to be less of a problem in global teams because members are less likely to feel pressured to conform to the ideas, conclusions and decisions of the group.[53]

Also, the importance of status varies between cultures. The French, for example, are extremely status conscious. Also, countries differ on the criteria that confer status. For example, in India, status tends to come from a person's caste, family position and formal role held in their organisation.[54] In contrast, while status is important in countries

like Australia and the United States, it tends to be less ‘in your face’ and is based on accomplishments, rather than on titles and family history. Managers must understand who and what holds status when interacting with people from a culture different from their own. An Australian manager who doesn’t understand that office size isn’t a measure of a Japanese executive’s position or who fails to grasp the importance the British place on family genealogy and social class is likely to unintentionally offend others and lessen their interpersonal effectiveness.

Social loafing has a Western bias. It’s consistent with individualistic cultures, such as Australia and the United States, which are dominated by self-interest. It’s not consistent with collectivistic societies, in which individuals are motivated by group goals. For example, in studies comparing employees from the United States with employees from the People’s Republic of China and Israel (both collectivistic societies), the Chinese and Israelis showed no propensity to engage in social loafing. In fact, they actually performed better in a group than when working alone.[55]

Cohesiveness is another group structural element that may create special challenges for managers. In a cohesive group, members are unified and ‘act as one’. There’s a great deal of camaraderie, and group identity is high. In global teams, however, cohesiveness is often more difficult to achieve because of higher levels of ‘mistrust, miscommunication and stress’.[56]

UBER

Tino Waked is regional general manager at Uber in the Middle East and Africa. Uber's food delivery service, Uber Eats, has expanded rapidly throughout the world. In order to manage its market strategy, operations and expansion teams that launch the service in different countries, Uber has had to understand and accommodate the unique cultural characteristics of team members.

KHALED DESOUKI /AFP/Getty Images

How do team processes affect managing a global team?

The processes that global teams use to do their work can be particularly challenging for managers. For one thing, communication issues often arise because not all team members may be fluent in the team's working language, which can lead to inaccuracies, misunderstandings and inefficiencies.[57] However, a multicultural global team is often better able to capitalise on the diversity of ideas represented if a wide range of information is used.[58]

Managing conflict in global teams isn't easy, especially when those teams are virtual teams. Conflict can interfere with how information is used by the team. However, research shows that in collectivistic cultures, a collaborative conflict management style can be most effective.[59]

When are teams not the answer?

Teamwork takes more time and often more resources than does individual work.[60] Teams require managers to communicate more, manage conflicts and run meetings. So, the benefits of using teams need to exceed the costs. And that's not always the case![61] In the rush to use teams, some managers have introduced them into situations in which it would have been better to have individuals do the work. So, before implementing teams just because everyone's talking about their popularity, you should carefully evaluate whether the work requires or will benefit from a collective effort.

How do you know whether work is better done individually or by a group? Three 'tests' have been suggested.[62] First, can the work be done better by more than one person? Task complexity would be a good indicator of a need for different perspectives. Simple tasks that don't require diverse input are probably better done by individuals. Second, does the work create a common purpose or set of goals for the people in the group that's more than the sum of individual goals? For example, many car dealerships use teams to link customer-service personnel, mechanics, parts specialists and sales representatives. Such teams can better meet the goal of achieving outstanding customer satisfaction. The final test to assess whether teams or individuals are better suited for doing work is to look at the interdependence of the individuals. Using teams makes sense when

there’s interdependence between tasks; that is, when the success of everyone depends on the success of each person *and* the success of each person depends on the others. For example, soccer is an obvious team sport. Success requires a lot of coordination between interdependent players. On the other hand, swim teams aren’t really teams, except on relays. They’re groups of individuals, performing individually, whose total performance is merely the sum of their individual performances.

Review

Chapter 8 summary

8.1 Define a group, and describe the stages of group development.

A group is two or more interacting and interdependent individuals who come together to achieve specific goals. Formal groups are work groups that are defined by the organisation's structure and have designated work assignments and specific tasks directed at accomplishing organisational goals. Informal groups are social groups.

The forming stage consists of two phases: joining the group and defining the group's purpose, structure and leadership. The storming stage is one of intragroup conflict over who will control the group and what the group will be doing. The norming stage is when close relationships and cohesiveness develop as norms are determined. The performing stage is when group members work on the group's task. The adjourning stage happens when the group prepares to disband.

8.2 Describe the main concepts of group behaviour.

A role is a set of behaviour patterns expected of someone occupying a given position in a social unit. At any given time, employees adjust their role behaviours to the group of which they are a part. Norms are standards shared by group members. They informally convey to employees which behaviours are acceptable

and which are unacceptable. Status is another factor to be aware of because it can be a significant motivator and needs to be congruent. Also, group size affects group behaviour in a number of ways. Smaller groups are generally faster at completing tasks than are larger ones. However, larger groups are frequently better at fact finding because of their diversified input. As a result, larger groups are generally better at problem solving. Finally, group cohesiveness is important because of its impact on a group's effectiveness at achieving its goals.

8.3 Discuss how groups are turned into effective teams.
Effective teams have common characteristics. They have adequate resources, effective leadership, a climate of trust, and a performance evaluation and reward system that reflects team contributions. These teams have individuals with technical expertise as well as problem-solving, decision-making and interpersonal skills, and the right traits, especially conscientiousness and openness to new experiences. Effective teams also tend to be small, preferably of diverse backgrounds. They have members who fill role demands and prefer to be part of a team. And the work that members do provides freedom and autonomy, the opportunity to use different skills and talents, the ability to complete a whole and identifiable task or product, and work that has a substantial impact on others. Finally, effective teams have members who believe in the team's capabilities and are committed to a common plan and purpose, specific team goals, a manageable level of conflict and a minimal degree of social loafing.

8.4 Discuss contemporary issues in managing teams.

The challenges of managing global teams can be seen in team composition factors, especially the diverse cultural characteristics; in team structure, especially conformity, status, social loafing and cohesiveness; in team processes, especially with communication and managing conflict; and in the manager's role in making it all work.

Managers also need to know when teams aren't the answer. They can do this by assessing whether the work can be done better by more than one person; by whether the work creates a common purpose or set of goals for the members of the team; and by the amount of interdependence among team members.

Discussion questions

8.1 Think of a group to which you belong (or have belonged). Trace its development through the stages of group development as shown in **Figure 8.1**. How closely did its development parallel the group development model? How might the group development model be used to improve this group's effectiveness?
8.2 How could norms enhance a group's performance? How could norms undermine a group's performance?
8.3 How could a manager address social loafing in a work group?
8.4 Contrast (a) self-managed and cross-functional teams, and (b) virtual and face-to-face teams.
8.5 How do you explain the popularity of work teams in countries such as Australia and the United States, whose national cultures place a high value on individualism?
8.6 'All work teams are work groups, but not all work groups are work teams.' Do you agree or disagree with this statement? Discuss.
8.7 Would you prefer to work alone or as part of a team? Why?
8.8 'To have a successful team, first find a great leader.' What do you think of this statement? Do you agree? Why or why not?
8.9 Contrast the pros and cons of diverse teams.

8.10 What challenges do managers face in managing global teams? How should those challenges be handled?

Management skills spotlight: Developing your coaching skills

Organisations have become increasingly designed around teams. Twenty years ago, the individual was the basic building block of an organisation; today it’s teams. As the manager, you need to be able to effectively lead and coach a team. Without those skills, you’re likely to have a short tenure in your management position.

Experiential exercise

Organisations (work and educational) often use team-building exercises to help teams improve their performance. Working with three or four classmates, select two of the characteristics of effective teams identified in **Figure 8.5** and develop a team-building exercise for each characteristic. In developing your exercise, focus on helping a group improve that particular characteristic. Be creative!

Now reflect on your experiences of working together on this task.

1. Describe what happened. How did your group work together? What went right? What didn't go right?
2. Interpret your experience. Review the factors that influence team effectiveness in **Figure 8.5**. Which of these factors helped your team's performance? Were there any that were missing?
3. Evaluate your experience. What did you learn from the experience about factors that influence team effectiveness in completing a task? What did you learn about *how* those factors influence team effectiveness?
4. How could you apply your insights in the future? Next time you work in a team, how will you help the team be more effective? What factors will you focus on enhancing? How will you do that?

Case application: Intel inside . . . and far away

Intel is the world's largest semiconductor manufacturer and operates in rapidly evolving industries that include artificial intelligence, the Internet of Things and data storage technologies. Staying nimble and adaptive when you have over 110,000 employees worldwide and annual revenues exceeding US$72 billion can be tough. For Intel, teams have been part of the solution.

Intel's headquarters are located in California, but its R&D employees are located all over the world. Intel's Israel Development Centre (IDC), located in Haifa on the Mediterranean coast, was established in 1974 as the company's first development centre outside the United States.[63] The Israeli team of engineers has helped to develop many of the company's most successful innovations, including the technology behind the highly successful Centrino chips for laptops. In fact, the group atmosphere at IDC, although quite confrontational, actually helped Centrino get off the ground. During the initial design stages of Centrino, the focus, as always, was on processor chip speed. But fast chips consume more power and shorten battery life: not ideal in a product

designed for laptops. An engineer at IDC came to the team leader and suggested that power consumption could be halved by sacrificing half the chip speed. It was a controversial suggestion because it went against everything the company stood for, and might not have been taken on board if it had been made at headquarters. But the Israeli group wasn't bound by corporate cultural constraints, and the suggestion led to the development of a winning product.

> **Connecting up** for creative thinking.

One major challenge for Intel's geographically dispersed teams is that when team members live and work in different countries, varying time zones, diverse cultures and dissimilar languages make it more difficult to be a successful team. Intel's managers use virtual retrospectives to keep the teams connected and the innovations flowing. A retrospective is 'a formal method for evaluating project performance, extracting lessons learned, and making recommendations for the future'. These virtual meetings usually last longer than normal, because the teams often have numerous issues to discuss. Also, team leaders need to take into account cultural differences (speaking styles, family commitments), safety (establishing an environment where all participants feel free to express observations and opinions) and fairness (locations with a large number of participants can dominate the discussion and limit input from sites with fewer participants). Nevertheless, Intel's project managers have found that the retrospectives provide a vital and valuable way for their geographically dispersed teams to collaborate and connect.

Discussion questions

8.11 What challenges have Intel's managers faced in connecting their geographically dispersed teams? How have they dealt with these challenges?

8.12 Would a 'confrontational' atmosphere be appropriate in all team situations? Explain.

8.13 Discuss how roles, norms, status, group size and cohesiveness might affect these geographically dispersed teams.

8.14 Compare the team characteristics described here with the characteristics of effective teams as shown in **Figure 8.5**. Which ones does the IDC team appear to have?

Running case: Holiday home helpers: Team up? Or go it alone?

During her second week as a regional manager for HHH, Mia and Nate met to discuss making more use of teams in the company.

‘Nate, you mentioned that at HHH cleaners work either alone or in two-person teams. Why use both arrangements?’

‘Well, we have to use two-person teams at our larger properties because that’s the only way we can get the whole house cleaned between a 10 am check-out and a 2 pm check-in. Each house is usually cleaned by the same team, because as they get to know the property they become more efficient. Team members work out between themselves how they clean the property. I know one team where both members prefer to do the same jobs every time – they each have their task list to complete, and they never switch. Other teams mix it up a bit because they get bored doing the same jobs every time.’

‘And how does that work out?’ Mia asked. ‘Does it affect the quality of the cleaning? Does it impact on how the team functions?’

‘It can,’ said Nate. ‘Especially when the team is new at working together. Sometimes conflict arises because they have different methods. We occasionally have one team member complain to us that the other one “isn’t doing it right”. This has come up a few times when we’ve had experienced cleaners working with newer staff: the experienced cleaner shows the new person “how it’s done”, the new person does something different, and the experienced person complains that the new person isn’t listening to them or isn’t following instructions.’

‘How do you handle that?’ asked Mia.

‘I tell them both that our number one priority is that the cleaning is done as well and as quickly as possible. I have no issue with someone using a different method if the cleaning is done to the same standard and if it doesn’t take them longer to do it that way. If that’s achieved, I tell them both to use whichever method they like. I actually encourage them to try each other’s methods so they can mix things up a bit if they feel like a change. But if one method is clearly quicker or cleaner, then I make it clear that’s the one they’re both expected to use from now on.’

‘What about the smaller properties?’ said Mia. ‘Have you considered using two-person cleaning teams in those as well? Because if each team took less time, you could get them to clean more houses in a day.’

‘We considered it, but decided not to. Using one cleaner per house means that it’s easier to track people’s performance. If the house is cleaned really well, we know who is responsible. Same goes if it’s not! As our cleaners are paid a set rate for each house, they have an incentive to work quickly. So, if it’s a house that we pay as a three-hour job and they can get it done in two or two-and-a-half hours, then that’s a win for them. But if they work slowly and take more than three hours to do it, then that’s also on them.’

‘But wouldn’t team members hurry each other up?’ asked Mia.

‘If they work at two different speeds, then either one of them ends up doing more of the work, or yes, they do start trying to hurry the other one,’ said Nate. ‘But then the team ends up spending more time checking in with each other (or checking up on each other) than they save by working together, so they only achieve as much together as they’d achieve if they each worked separately.’

Discussion questions

8.15 Explain how the two-person cleaning teams work though the stages of group development set out in **Figure 8.1**.

8.16 How do roles, norms, status, group size and cohesion influence the conflict that arises in cleaning teams?

8.17 If you were Mia, would you make the cleaning staff work in teams? Review the material on team

effectiveness and when teams aren't the answer. Would teams be effective? Why or why not?

8.18 If HHH did introduce a team structure for its cleaning staff, how could Mia shape team behaviour?

Endnotes

1 Microsoft, *Annual Report 2017*, **www.microsoft.com**, 27 April 2018.

2 S. Phillips, T. Zimmermann and C. Bird, 'Understanding and Improving Software Build Teams', **www.microsoft.com**, February 2016.

3 C. Wilson and P. H. Elliot, 'Helping Every Team Exceed Expectations', *TD*, May 2017, pp. 18–21.

4 S. Phillips, T. Zimmermann and C. Bird, 'Understanding and Improving Software Build Teams', **www.microsoft.com**, February 2016.

5 C. Wilson and P. H. Elliot, 'Helping Every Team Exceed Expectations', *TD*, May 2017, pp. 18–21.

6 B. W. Tuckman and M. C. Jensen, 'Stages of Small-Group Development Revisited', *Group and Organizational Studies*, December 1977, pp. 419–27; and M. F. Maples, 'Group Development: Extending Tuckman's Theory', *Journal for Specialists in Group Work*, Fall 1988, pp. 17–23.

7 L. N. Jewell and H. J. Reitz, *Group Effectiveness in Organizations* (Glenview, IL: Scott, Foresman, 1981); and M. Kaeter, 'Repotting Mature Work Teams', *Training*, April 1994, pp. 54–6.

8 S. E. Asch, 'Effects of Group Pressure upon the Modification and Distortion of Judgments', in H. Guetzkow (ed.), *Groups, Leadership and Men* (Pittsburgh, PA: Carnegie Press, 1951), pp. 177–90.

9 Classic Concepts in Today's Organisations box based on S. S. Wang, 'Under the Influence: How the Group Changes What We Think', *Wall Street Journal*, 3 May 2011, pp. D1+; M. E. Shaw, *Group Dynamics: The Psychology of Small Group Behavior* (New York: McGraw-Hill, 1975); and E. J. Thomas and C. F. Fink, 'Effects of Group Size', *Psychological Bulletin*, July 1963, pp. 371–84.

10 S. E. Asch, 'Effects of Group Pressure upon the Modification and Distortion of Judgments', in H. Guetzkow (ed.), *Groups, Leadership and Men* (Pittsburgh, PA: Carnegie Press, 1951), pp. 177–90.

11 R. Albanese and D. D. Van Fleet, 'Rational Behavior in Groups: The Free Riding Tendency', *Academy of Management Review*, April 1985, pp. 244–55.

12 M. E. Shaw, *Group Dynamics: The Psychology of Small Group Behaviour*, 3rd edn (New York: McGraw-Hill, 1981). See also N. Nicholson (ed.), *Encyclopaedic Dictionary of Organizational Behaviour* (Oxford, UK: Blackwell, 1995), p. 199.

13 L. Berkowitz, 'Group Standards, Cohesiveness and Productivity', *Human Relations*, November 1954, pp. 509–19.

14 See, for example, R. A. Henry, J. Kmet and A. Landa, 'Examining the Impact of Interpersonal Cohesiveness on Group Accuracy Interventions: The Importance of Matching versus Buffering', *Organizational Behavior and Human Decision Processes*, January 2002, pp. 25–43.

15 Managing for Sustainability box based on B. McManus, 'How to Build a Green Team: The First Steps to Sustainability', *Green Biz*, May 2009; D. Fleischer, '10 Best Practices for Building Green Teams', *Green Biz*, December 2009; D. Bray, *Corporate Green*

Teams: A New Social Trend at Work? (San Francisco: Alta Terra Research Network, 2008); and Monash Sustainable Development Institute, *Green Teams that Work*, www.greensteps.edu.au/news/, accessed 26 September 2017.

16 J. Bersin, 'New Research Shows Why Focus on Teams, Not Just Leaders, is Key to Business Performance', *Forbes*, 3 March 2016.

17 See, for example, S. A. Mohrman, S. G. Cohen and A. M. Mohrman, Jr, *Designing Team-Based Organizations* (San Francisco: Jossey-Bass, 1995); P. MacMillan, *The Performance Factor: Unlocking the Secrets of Teamwork* (Nashville, TN: Broadman & Holman, 2001); and E. Salas, C. A. Bowers and E. Eden (eds), *Improving Teamwork in Organizations: Applications of Resource Management Training* (Mahwah, NJ: Lawrence Erlbaum, 2002).

18 Information for this section is based on J. R. Katzenbach and D. K. Smith, *The Wisdom of Teams* (Boston: Harvard Business School Press, 1993), pp. 21, 45, 85; and D. C. Kinlaw, *Developing Superior Work Teams* (Lexington, MA: Lexington Books, 1991), pp. 3–21.

19 S. Adams and L. Kydoniefs, 'Making Teams Work: Bureau of Labor Statistics Learns What Works and What Doesn't', *Quality Progress*, January 2000, pp. 43–9.

20 T. Capozzoli, 'How to Succeed with Self-Directed Work Teams', *Supervision*, February 2002, pp. 25–7.

21 See, for example, E. Sunstrom, K. E. De Meuse and D. Futrell, 'Work Teams: Applications and Effectiveness', *American Psychologist*, February 1990, pp. 120–33.

22 Rethinking Management in a Global Crisis feature based on K. Menzies, 'Explainer: What is the National Cabinet and is it Democratic?', *The Conversation*, 31 March 2020, **https://theconversation.com/explainer-what-is-the-national-cabinet-and-is-it-democratic-135036**, accessed 10 May 2020; and Department of Prime Minister and Cabinet, 'Prime Minister Ardern Attends National Cabinet', 6 May 2020, **https://www.pmc.gov.au/news-centre/domestic-policy/prime-minister-ardern-attends-national-cabinet**, accessed 10 May 2020.

23 M. Cianni and D. Wanuck, 'Individual Growth and Team Enhancement: Moving Toward a New Model of Career Development', *Academy of Management Executive*, February 1997, pp. 105–15.

24 J. P. Millikin, P. W. Hom and C. C. Manz, 'Self-Management Competencies in Self-Managing Teams: Their Impact on Multi-Team System Productivity', *Leadership Quarterly*, October 2010, pp. 687–702; O. Turel and Y. Zhang, 'Does Virtual Team Composition Matter? Trait and Problem-Solving Configuration Effects on Team Performance', *Behavior & Information Technology*, July–August 2010, pp. 363–75; J. S. Bunderson and P. Boumgarden, 'Structure and Learning in Self-Managed Teams: Why "Bureaucratic" Teams Can Be Better Learners', *Organization Science*, May–June 2010, pp. 609–24; and G. M. Spreitzer, S. G. Cohen and G. E. Ledford, Jr, 'Developing Effective Self-Managing Work Teams in Service Organizations', *Group & Organization Management*, September 1999, pp. 340–66.

25 R. Enmers, 'The Other Side of Leadership: Leadership Disciplines that Matter', **www.academyleadership.com**, April 2012, accessed 29 September 2014.

26 'Virtual Team Collaboration and Innovation in Organizations', *Team Performance Management*, March 2011, pp. 109–19; M. Flammia, Y. Cleary and D. M. Slattery, 'Leadership Roles, Socioemotional Strategies and Technology Use of Irish and U.S. Students in Virtual Teams', *IEEE Transactions on Professional Communication*, June 2010, pp. 89–101; A. Malhotra, A. Majchrzak and B. Rosen, 'Leading Virtual Teams', *Academy of Management Perspectives*, February 2007, pp. 60–70; B. L. Kirkman and J. E. Mathieu, 'The Dimensions and Antecedents of Team Virtuality', *Journal of Management*, October 2005, pp. 700–18; J. Gordon, 'Do Your Virtual Teams Deliver Only Virtual Performance?', *Training*, June 2005, pp. 20–5; L. L. Martins, L. L. Gilson and M. T. Maynard, 'Virtual Teams: What Do We Know and Where Do We Go from Here?', *Journal of Management*, December 2004, pp. 805–35; S. A. Furst, M. Reeves, B. Rosen and R. S. Blackburn, 'Managing the Life Cycle of Virtual Teams', *Academy of Management Executive*, May 2004, pp. 6–20; B. L. Kirkman, B. Rosen, P. E. Tesluk and C. B. Gibson, 'The Impact of Team Empowerment on Virtual Team Performance: The Moderating Role of Face-to-Face Interaction', *Academy of Management Journal*, April 2004, pp. 175–92; F. Keenan and S. E. Ante, 'The New Teamwork', *Business Week e.biz*, 18 February 2002, pp. EB12–16; and G. Imperato, 'Real Tools for Virtual Teams', *Fast Company*, July 2000, pp. 378–87.

27 See, for example, D. C. Jones and T. Kato, 'The Impact of Teams on Output, Quality and Downtime: An Empirical Analysis Using Individual Panel Data', *Industrial and Labor Relations Review*, January 2011, pp. 215–40; A. Gilley, J. W. Gilley, C. W. McConnell and A. Veliquette, 'The Competencies Used by Effective Managers to

Build Teams: An Empirical Study', *Advances in Developing Human Resources*, February 2010, pp. 29–45; M. A. Campion, G. J. Medsker and C. A. Higgs, 'Relations between Work Group Characteristics and Effectiveness: Implications for Designing Effective Work Groups', *Personnel Psychology*, Winter 1993, pp. 823–50; and J. R. Hackman, 'The Design of Work Teams', in J. W. Lorsch (ed.), *Handbook of Organizational Behavior* (Upper Saddle River, NJ: Prentice Hall, 1987), pp. 315–42.

28 This model is based on M. A. Campion, E. M. Papper and G. J. Medsker, 'Relations between Work Team Characteristics and Effectiveness: A Replication and Extension', *Personnel Psychology*, Summer 1996, pp. 429–52; D. E. Hyatt and T. M. Ruddy, 'An Examination of the Relationship between Work Group Characteristics and Performance: Once More into the Breech', *Personnel Psychology*, Autumn 1997, pp. 553–85; S. G. Cohen and D. E. Bailey, 'What Makes Teams Work: Group Effectiveness Research from the Shop Floor to the Executive Suite', *Journal of Management*, September 1997, pp. 239–90; L. Thompson, *Making the Team* (Upper Saddle River, NJ: Prentice Hall, 2000), pp. 18–33; and J. R. Hackman, *Leading Teams: Setting the Stage for Great Performance* (Boston: Harvard Business School Press, 2002).

29 See M. Mattson, T. V. Mumford and G. S. Sintay, 'Taking Teams to Task: A Normative Model for Designing or Recalibrating Work Teams', paper presented at the National Academy of Management Conference, Chicago, August 1999; and G. L. Stewart and M. R. Barrick, 'Team Structure and Performance: Assessing the Mediating Role of Intrateam Process and the Moderating Role of

Task Type', *Academy of Management Journal*, April 2000, pp. 135–48.

30 R. I. Sutton, 'The Boss as Human Shield', *Harvard Business Review*, September 2010, pp. 106–9; and D. E. Hyatt and T. M. Ruddy, 'An Examination of the Relationship between Work Group Characteristics and Performance: Once More into the Breech', *Personnel Psychology*, Autumn 1997, p. 577.

31 Managing for Diversity and Inclusion box based on D. Van Knippenberg and M. C. Shippers, 'Work Group Diversity', *Annual Review of Psychology*, vol. 58 (2007), pp. 515–41; and 'How to Create a Successful Online Business Startup while Keeping Your Day Job', https://www.business.vic.gov.au/case-studies/how-to-create-a-successful-online-business-startup-while-keeping-your-day-job, accessed 18 May 2020.

32 M. E. Palanski, S. S. Kahai and F. J. Yammarino, 'Team Virtues and Performance: An Examination of Transparency, Behavioral Integrity and Trust', *Journal of Business Ethics*, March 2011, pp. 201–16; H. H. Chang, S. S. Chuang and S. H. Chao, 'Determinants of Cultural Adaptation, Communication Quality and Trust in Virtual Teams' Performance', *Total Quality Management and Business Excellence*, March 2011, pp. 305–29; A. C. Costa and N. Anderson, 'Measuring Trust in Teams: Development and Validation of a Multifaceted Measure of Formative and Reflective Indicators of Team Trust', *European Journal of Work & Organizational Psychology*, February 2011, pp. 119–54; M. Mach, S. Dolan and S. Tzafrir, 'The Differential Effect of Team Members' Trust on Team Performance: The Mediation Role of Team Cohesion', *Journal of Occupational and Organizational Psychology*, September 2010,

pp. 771–94; B. A. DeJong and T. Elfring, 'How Does Trust Affect the Performance of Ongoing Teams? The Mediating Role of Reflexivity, Monitoring and Effort', *Academy of Management Journal*, June 2010, pp. 535–49; M. Williams, 'In Whom We Trust: Group Membership as an Affective Context for Trust Development', *Academy of Management Review*, July 2001, pp. 377–96; and K. T. Dirks, 'Trust in Leadership and Team Performance: Evidence from NCAA Basketball', *Journal of Applied Psychology*, December 2000, pp. 1004–12.

33 R. R. Hirschfeld, M. J. Jordan, H. S. Field, W. F. Giles and A. A. Armenakis, 'Becoming Team Players: Team Members' Mastery of Team Knowledge as a Predictor of Team Task Proficiency and Observed Teamwork Effectiveness', *Journal of Applied Psychology*, vol. 91, no. 2 (2006), pp. 467–74.

34 S. T. Bell, 'Deep-Level Composition Variables as Predictors of Team Performance: A Meta-Analysis', *Journal of Applied Psychology*, vol. 92, no. 3 (2007), pp. 595–615; and M. R. Barrick, G. L. Stewart, M. J. Neubert and M. K. Mount, 'Relating Member Ability and Personality to Work-Team Processes and Team Effectiveness', *Journal of Applied Psychology*, June 1998, pp. 377–91.

35 M. Costello, 'Team Weaver', *People Management*, January 2011, pp. 26–7; and C. Margerison and D. McCann, *Team Management: Practical New Approaches* (London: Mercury Books, 1990).

36 K. H. T. Yu and D. M. Cable, 'Unpacking Cooperation in Diverse Teams', *Team Performance Management*, March 2011, pp. 63–82; A. Nederveen Pieterse, D. van Knippenberg and W. P. van

Ginkel, 'Diversity in Goal Orientation, Team Reflexivity and Team Performance', *Organizational Behavior and Human Performance*, March 2011, pp. 153–64; M. E. Roberge and R. van Dick, 'Recognizing the Benefits of Diversity: When and How Does Diversity Increase Group Performance', *Human Resource Management Review*, December 2010, pp. 295–308; and E. Mannix and M. A. Neale, 'What Differences Make a Difference: The Promise and Reality of Diverse Teams in Organizations', *Psychological Science in the Public Interest*, October 2005, pp. 31–55.

37 A. Deutschman, 'Inside the Mind of Jeff Bezos', *Fast Company*, August 2004, pp. 50–8.

38 D. E. Hyatt and T. M. Ruddy, 'An Examination of the Relationship between Work Group Characteristics and Performance: Once More into the Breech', *Personnel Psychology*, Autumn 1997, pp. 553–85; J. D. Shaw, M. K. Duffy and E. M. Stark, 'Interdependence and Preference for Group Work: Main and Congruence Effects on the Satisfaction and Performance of Group Members', *Journal of Management*, June 2000, pp. 259–79; and S. A. Kiffin-Peterson and J. L. Cordery, 'Trust, Individualism and Job Characteristics of Employee Preference for Teamwork', *International Journal of Human Resource Management*, February 2003, pp. 93–116.

39 J. S. Bunderson and P. Boumgarden, 'Structure and Learning in Self-Managed Teams: Why "Bureaucratic" Teams Can Be Better Learners', *Organization Science*, May–June 2010, pp. 609–24; and R. Wageman, 'Critical Success Factors for Creating Superb Self-Managing Teams', *Organizational Dynamics*, Summer 1997, p. 55.

40 M. A. Campion, E. M. Papper and G. J. Medsker, 'Relations between Work Team Characteristics and Effectiveness: A Replication and Extension', *Personnel Psychology*, Summer 1996, p. 430; B. L. Kirkman and B. Rosen, 'Powering up Teams', *Organizational Dynamics*, Winter 2000, pp. 48–66; and D. C. Man and S. S. K. Lam, 'The Effects of Job Complexity and Autonomy on Cohesiveness in Collectivist and Individualist Work Groups: A Cross-Cultural Analysis', *Journal of Organizational Behavior*, December 2003, pp. 979–1001.

41 A. Mehta, H. Feild, A. Armenakis and N. Mehta, 'Team Goal Orientation and Team Performance: The Mediating Role of Team Planning', *Journal of Management*, August 2009, pp. 1026–46; K. Blanchard, D. Carew and E. Parisi-Carew, 'How to Get Your Group to Perform Like a Team', *Training and Development*, September 1996, pp. 34–7; K. D. Scott and A. Townsend, 'Teams: Why Some Succeed and Others Fail', *HR Magazine*, August 1994, pp. 62–7; K. Hess, *Creating the High-Performance Team* (New York: Wiley, 1987); and J. R. Katzenbach and D. K. Smith, *The Wisdom of Teams* (Boston: Harvard Business School Press, 1993), pp. 43–64.

42 H. van Emmerik, I. M. Jawahar, B. Schreurs and N. de Cuyper, 'Social Capital, Team Efficacy and Team Potency: The Mediating Role of Team Learning Behaviors', *Career Development International*, February 2011, pp. 82–99; T. Lewis, 'Assessing Social Identity and Collective Efficacy as Theories of Group Motivation at Work', *International Journal of Human Resource Management*, February 2011, pp. 963–80; K. Tasa, G. J. Sears and A. C. H. Schat, 'Personality and Teamwork Behavior in Context: The Cross-Level Moderating Role of Collective Efficacy', *Journal of Organizational*

Behavior, January 2011, pp. 65–85; J. A. Goncalo, E. Polman and C. Maslach, 'Can Confidence Come Too Soon? Collective Efficacy, Conflict and Group Performance Over Time', *Organizational Behavior & Human Decision Processes*, September 2010, pp. 13–24; K. Tasa, S. Taggar and G. H. Seijts, 'The Development of Collective Efficacy in Teams: A Multilevel and Longitudinal Perspective', *Journal of Applied Psychology*, January 2007, pp. 17–27; C. B. Gibson, 'The Efficacy Advantage: Factors Related to the Formation of Group Efficacy', *Journal of Applied Social Psychology*, October 2003, pp. 2153–86; and D. I. Jung and J. J. Sosik, 'Group Potency and Collective Efficacy: Examining Their Predictive Validity, Level of Analysis and Effects of Performance Feedback on Future Group Performance', *Group & Organization Management*, September 2003, pp. 366–91.

43 K. C. Kostopoulos and N. Bozionelos, 'Team Exploratory and Exploitative Learning: Psychological Safety, Task Conflict and Team Performance', *Group & Organization Management*, June 2011, pp. 385–415; K. J. Behfar, E. A. Mannix, R. S. Peterson and W. M. Trochim, 'Conflict in Small Groups: The Meaning and Consequences of Process Conflict', *Small Group Research*, April 2011, pp. 127–76; R. S. Peterson and K. J. Behfar, 'The Dynamic Relationship between Performance Feedback, Trust and Conflict in Groups: A Longitudinal Study', *Organizational Behavior and Human Decision Processes*, September–November 2003, pp. 102–12; and K. A. Jehn, 'A Qualitative Analysis of Conflict Types and Dimensions in Organizational Groups', *Administrative Science Quarterly*, September 1997, pp. 530–57.

44 O. A. Alnuaimi, L. P. Robert, Jr and L. M. Maruping, 'Team Size, Dispersion and Social Loafing in Technology-Supported Teams: A Perspective on the Theory of Moral Disengagement', *Journal of Management Information Systems*, Summer 2010, pp. 203–30; C. Cheshire and J. Antin, 'None of Us Is as Lazy as All of Us', *Information, Communication & Society*, June 2010, pp. 537–55; R. van Dick, J. Stellmacher, U. Wagner, G. Lemmer and P. A. Tissington, 'Group Membership Salience and Task Performance', *Journal of Managerial Psychology*, vol. 24, no. 7 (2009), pp. 609–26; A. Jassawalla, H. Sashittal and A. Malshe, 'Students' Perceptions of Social Loafing: Its Antecedents and Consequences in Undergraduate Business Classroom Teams', *Academy of Management Learning & Education*, March 2009, pp. 42–54; K. H. Price, D. A. Harrison and J. H. Gavin, 'Withholding Inputs in Team Contexts: Member Composition, Interaction Processes, Evaluation Structure and Social Loafing', *Journal of Applied Psychology*, December 2006, pp. 1375–84; and R. Albanese and D. D. Van Fleet, 'Rational Behavior in Groups: The Free Riding Tendency', *Academy of Management Review*, April 1985, pp. 244–55.

45 'Helping Hands', *HR Magazine*, May 2011, p. 18; M. O'Neil, 'Leading the Team', *Supervision*, April 2011, pp. 8–10; J. Beeson, 'Build a Strong Team', *Leadership Excellence*, February 2011, p. 15; S. Brutus and M. B. L. Donia, 'Improving the Effectiveness of Students in Groups with a Centralized Peer Evaluation System', *Academy of Management Learning & Education*, December 2010, pp. 652–62; and N. H. Woodward, 'Make the Most of Team Building', *HR Magazine*, September 2006, pp. 73–6.

46 R. M. Yandrick, 'A Team Effort', *HR Magazine*, June 2001, pp. 136–41.

47 R. M. Yandrick, 'A Team Effort', *HR Magazine*, June 2001, pp. 136–41.

48 National Critical Care and Trauma Response Centre, 'AUSMAT', **www.nationaltraumacentre.nt.gov.au/what-we-do/disaster-management/ausmat**, accessed 14 October 2017.

49 'How Should We Recognize Team Goals over Individual?', *Workforce Management Online*, February 2011; S. J. Goerg, S. Kube and R. Zultan, 'Treating Equals Unequally: Incentives in Teams, Workers' Motivation and Production Technology', *Journal of Labor Economics*, October 2010, pp. 747–72; T. Taylor, 'The Challenge of Project Team Incentives', *Compensation & Benefits Review*, September–October 2010, pp. 411–19; M. J. Pearsall, M. S. Christian and A. P. J. Ellis, 'Motivating Interdependent Teams: Individual Rewards, Shared Rewards, or Something in Between?', *Journal of Applied Psychology*, January 2010, pp. 183–91; M. A. Marks, C. S. Burke, M. J. Sabella and S. J. Zaccaro, 'The Impact of Cross-Training on Team Effectiveness', *Journal of Applied Psychology*, February 2000, pp. 3–14; and M. A. Marks, S. J. Zaccaro and J. E. Mathieu, 'Performance Implications of Leader Briefings and Team Interaction for Team Adaptation to Novel Environments', *Journal of Applied Psychology*, December 2000, p. 971.

50 C. Garvey, 'Steer Teams with the Right Pay: Team-Based Pay Is a Success When It Fits Corporate Goals and Culture and Rewards the Right Behavior', *HR Magazine*, May 2002, pp. 71–7.

51 F. Niederman and F. B. Tan, 'Emerging Markets Managing Global IT Teams: Considering Cultural Dynamics', *Communications of the ACM*, April 2011, pp. 24–7; R. M. B. Boyle and S. Nicholas, 'Cross-Cultural Group Performance', *The Learning Organization*, March 2011, pp. 94–101; G. K. Stahl, M. L. Maznevski, A. Voigt and K. Jonsen, 'Unraveling the Effects of Cultural Diversity in Teams: A Meta-Analysis of Research on Multicultural Work Groups', *Journal of International Business Studies*, May 2010, pp. 690–709; and M. R. Haas, 'The Double-Edged Swords of Autonomy and External Knowledge: Analyzing Team Effectiveness in a Multinational Organization', *Academy of Management Journal*, October 2010, pp. 989–1008.

52 R. Bond and P. B. Smith, 'Culture and Conformity: A Meta-Analysis of Studies Using Asch's [1952, 1956] Line Judgment Task', *Psychological Bulletin*, January 1996, pp. 111–37.

53 I. L. Janis, *Groupthink*, 2nd edn (New York: Houghton Mifflin Company, 1982), p. 175.

54 'What is India's Caste System?', **www.bbc.com/news/world-asia-india-35650616**, accessed 17 January 2018.

55 See P. C. Earley, 'Social Loafing and Collectivism: A Comparison of the United States and the People's Republic of China', *Administrative Science Quarterly*, December 1989, pp. 565–81; and P. C. Earley, 'East Meets West Meets Mideast: Further Explorations of Collectivistic and Individualistic Work Groups', *Academy of Management Journal*, April 1993, pp. 319–48.

56 N. J. Adler, *International Dimensions of Organizational Behavior*, 4th edn (Cincinnati, OH: Southwestern, 2002), p. 142.

57 K. B. Dahlin, L. R. Weingart and P. J. Hinds, 'Team Diversity and Information Use', *Academy of Management Journal*, December 2005, pp. 1107–23.

58 N. J. Adler, *International Dimensions of Organizational Behavior*, 4th edn (Cincinnati, OH: Southwestern, 2002), p. 142.

59 S. Paul, I. M. Samarah, P. Seetharaman and P. P. Mykytyn, 'An Empirical Investigation of Collaborative Conflict Management Style in Group Support System-Based Global Virtual Teams', *Journal of Management Information Systems*, Winter 2005, pp. 185–222.

60 This section is based on S. P. Robbins and T. A. Judge, *Organizational Behavior*, 14th edn (Upper Saddle River, NJ: Pearson Prentice Hall, 2011).

61 C. E. Naquin and R. O. Tynan, 'The Team Halo Effect: Why Teams Are Not Blamed for Their Failures', *Journal of Applied Psychology*, April 2003, pp. 332–40.

62 A. B. Drexler and R. Forrester, 'Teamwork – Not Necessarily the Answer', *HR Magazine*, January 1998, pp. 55–8. See also R. Saavedra, P. C. Earley and L. Van Dyne, 'Complex Interdependence in Task-Performing Groups', *Journal of Applied Psychology*, February 1993, pp. 61–72; and K. A. Jehn, G. B. Northcraft and M. A. Neale, 'Why Differences Make a Difference: A Field Study of Diversity, Conflict and Performance in Work Groups', *Administrative Science Quarterly*, December 1999, pp. 741–63.

63 J. Terzakis, 'Virtual Retrospectives for Geographically Dispersed Software Teams', *IEEE Computer Society*, May–June 2011, pp. 12–15; 'Virtual Teams Must Function Correctly', *Strategic Direction*, April 2011, pp. 22–4; C. Scovotti and L. D. Spiller, 'Cross-Border Student Collaborations: Opportunities for Videoconferencing',

Marketing Education Review, Spring 2011, pp. 57–61; E. Markowitz, 'Are the Best Leaders Revolutionaries?', *Inc. Online*, 28 March 2011; L. J. Gressgård, 'Virtual Team Collaboration and Innovation in Organizations', *Team Performance Management*, March 2011, pp. 102–19; A. Gupta, S. Seshasai, R. Aron and S. Pareek, 'The 24-Hour Knowledge Factory: Work and Organizational Redesign and Associated Challenges', *Information Resources Management Journal*, October–December 2010, pp. 40–56; M. R. Haas, 'The Double-Edged Swords of Autonomy and External Knowledge: Analyzing Team Effectiveness in a Multinational Organization', *Academy of Management Journal*, October 2010, pp. 989–1008; O. Coren, 'Israel Offers Intel $110 Million for Commitment to Stay in the Country', *Haaretz.com*, 26 August 2010; M. B. O'Leary, 'Go (Con)figure: Subgroups, Imbalance and Isolates in Geographically Dispersed Teams', *Organization Science*, January–February 2010, pp. 115–31; R. R. Nelson, 'Project Retrospectives: Evaluating Project Success, Failure and Everything in Between', *MIS Quarterly Executive*, September 2005, pp. 361–72; 'Intel', **www.fortune.com/company/intel/**, accessed 19 October 2020; and 'Strategic Priorities', **www.intc.com/strategic-priorities**, accessed 19 October 2020.

Chapter 9 Managing human resources

Fact or fiction?

Managers don't need to know about human resources management, because that's the job of the HR department.

Fiction

Human resources issues such as selection and performance appraisal are frequently thought to be the responsibility only of those who work in an organisation's HR department. The truth is that ***ALL managers should be concerned with HR functions*** of staffing, development, motivation and maintenance of people in their work unit. Although the HR department provides much-needed advice, suggestions and support activities, managers do have important HR responsibilities and are involved with HR decisions in their work units.[1]

For an organisation to have the best chance of achieving its goals and succeeding in its mission, it needs to have the *right number* of the *right people* in the *right place* at the *right time* doing the *right things*. That's where human resource management (HRM) comes in. In this chapter, we'll look at the process managers use to do just that – a process that includes interviewing and assessing job applicants, helping new employees settle into the organisation, training employees to do their jobs successfully and assessing employee performance. In addition, we'll look at some contemporary HRM issues that managers face. But to see what we mean about all managers needing to be involved with HRM, read the following case study on Timboon Fine Ice Cream.

Learning outcomes

9.1 Describe the key components of the human resource management process and the important influences on that process.

9.2 Discuss the tasks associated with identifying and selecting competent employees.

9.3 Explain how employees are provided with needed skills and knowledge.

9.4 Discuss how organisations provide a safe working environment.
9.5 Describe strategies for retaining competent, high-performing employees.
9.6 Discuss contemporary issues in managing human resources.

Finding the cream of the crop

Tim Marwood and Caroline Simmons have found the best way to ensure you have great staff is to 'grow your own', so they focus on hiring locals and helping staff grow and develop within the company.

Image courtesy of Timboon Fine Ice Cream

When Tim Marwood and Caroline Simmons founded Timboon Fine Ice Cream in 1999, their goal was to create a business that would add value to their family dairy operation.[2] Making ice cream expanded into having an ice-cream store, and most recently they opened a distillery. They also have a vintage ice-cream van to take Timboon Fine Ice Cream to local markets, festivals and special events such as weddings.

Tim and Caroline realised that a boutique gourmet ice-cream business needed to employ staff who shared their passion for

quality. ‘Once I had defined my expectations, I knew the quality that I wanted reflected in the staff,’ recalled Tim. The company is located in country Victoria, about 200 km from Melbourne. Organisations located in regional areas sometimes face difficulties in finding the kind of staff they need, but Tim and Caroline have overcome this problem by using creative staffing strategies. One such strategy has been to employ people who want to move to (or stay in) the local area. This has included employing travellers and offering accommodation as part of their remuneration package, and helping one part-time employee to find another part-time job on a local farm. Another strategy has been to staff the ice-cream van with local students who are home for the university holidays. Word of mouth has been one of the business’s most successful strategies and the main source for their current pool of 16 ‘scoopers’. The key, according to Tim, is being open to possibilities: the chef and maître d’ of the distillery literally walked in his door looking for a job; and after experiencing excellent customer service at a café in Melbourne, Tim offered the server a job with Timboon.

Tim and Caroline encourage their diverse staff to be the best they can be. Getting to know each staff member personally and developing a family-oriented culture helps them to spot and nurture talent, such as when they promoted a distillery cleaner to ice-cream maker. They have also involved their staff in the development of their new visitor centre. ‘This then opens up opportunities for other staff to transfer, which in turn makes it easier to fill the less complex roles,’ Tim explained. It also

makes it easier for Tim and Caroline to focus their attention on the things only they can do. While having great staff is key, Tim said, ‘It’s equally important to recognise your own limitations, know what you’re best at and set priorities for what you spend your time on.’

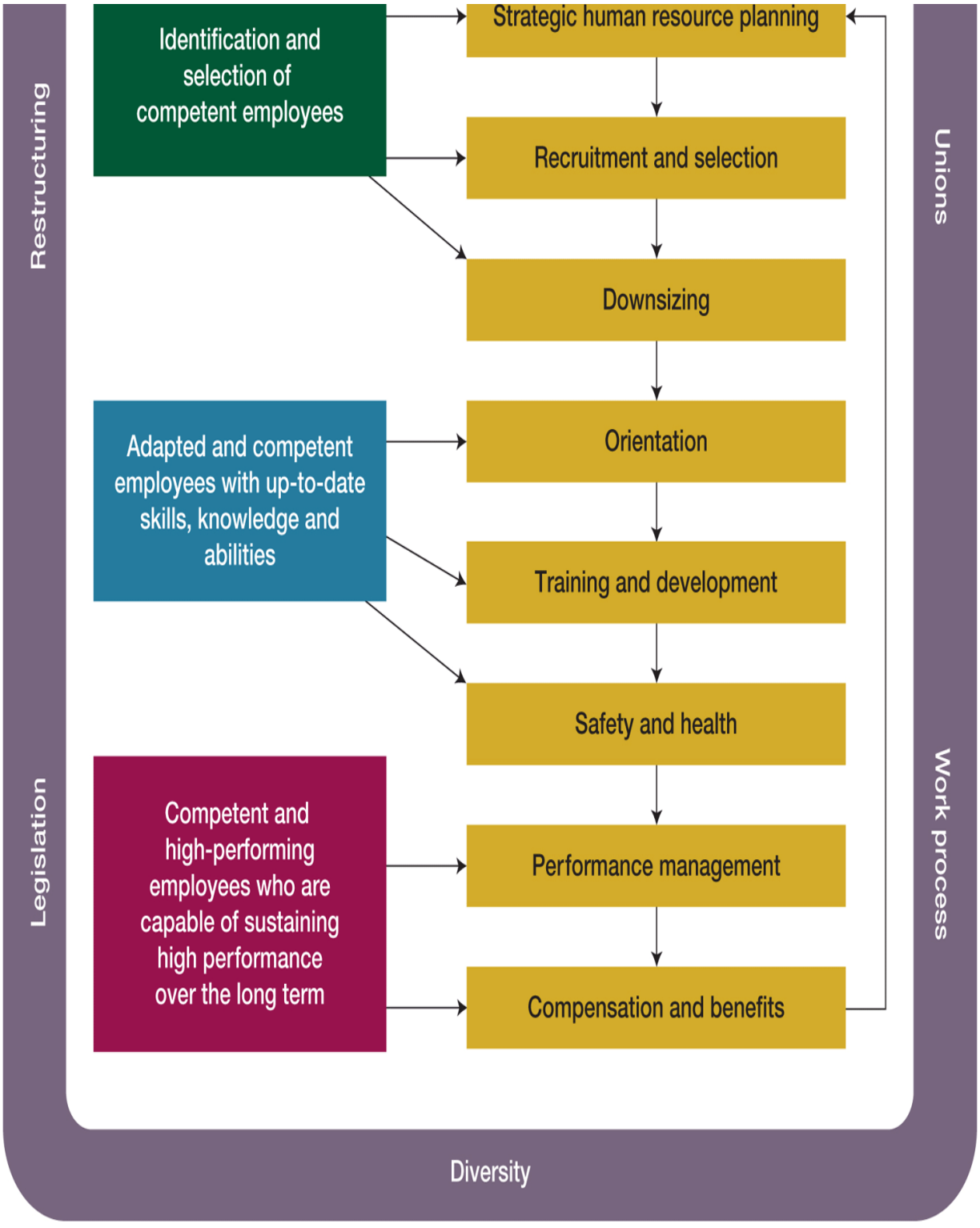
What is the human resource management process, and what influences it?

> Learning outcome 9.1 Describe the key components of the human resource management process and the important influences on that process.

The quality of an organisation *is* to a large degree determined by the quality of the people it employs. Success for most organisations depends on finding the employees with the skills to successfully perform the tasks required to attain the company's strategic goals. Staffing and human resource management decisions and actions are critical to ensuring that the organisation hires and keeps the right people.

Getting that done is what **human resource management (HRM)** is all about. The eight important HRM activities (the yellow boxes) are shown in **Figure 9.1**.

Figure 9.1 The HRM process


Identification and selection of competent employees
Strategic human resource planning
Recruitment and selection
Downsizing
Adapted and competent employees with up-to-date skills, knowledge and abilities
Orientation
Training and development
Safety and health
Competent and high-performing employees who are capable of sustaining high performance over the long term
Performance management
Compensation and benefits
Restructuring
Unions
Legislation
Work process
Diversity

human resource management (HRM)

The management function concerned with getting, training, motivating and keeping competent employees

After an organisation's strategy has been established and the organisation structure designed, it's time to add the people – to acquire the talent! That's one of the most critical roles for HRM and one that has increased the importance of HR managers to the organisation.

The first three activities in the HRM process represent employment planning: determining the organisation's human resource needs and then addressing those needs. When executed properly, these steps lead to the identification and selection of competent, talented employees who can assist an organisation in achieving its strategic goals.

Once you select the people you want, you need to help them adapt to the organisation, ensure that their job skills and knowledge are kept current, and provide them with a safe working environment. These next activities in the HRM process are accomplished through orientation, training, and managing workplace health and safety. The last steps in the HRM process are designed to identify performance goals, correct performance problems if necessary, and help employees sustain a high level of performance over their entire work

life. The activities involved include performance appraisal, and compensation and benefits. All these activities, if properly executed, will staff an organisation with competent, high-performing employees who are capable of sustaining their performance levels over the long run.

> $\mathrm{HRM} = \textbf{right people, right place, right time}.$

When HRM is practised strategically, it's even more valuable to the organisation. *Strategic HRM* means using HRM activities to maximise the value created by employees and enhance an organisation's fit with its environment, fulfil its strategic goals and achieve competitive advantages.[3] One element of this is using HRM as a 'strategy supporter': developing functional strategies for using HRM activities to support the organisation's strategic goals.[4] For instance, if an organisation is pursuing a corporate-level growth strategy, the functional strategy for HRM would be focused on acquiring new staff. Another element is using HRM as a strategic partner, which means drawing on HRM expertise when developing the strategic goals for the organisation. This would include having HRM experts help to identify opportunities and threats that might influence the organisation's future success. This is particularly valuable, because the entire process depicted in **Figure 9.1** is influenced by the external environment. Many of the factors we discussed in the chapter on the external organisational environment directly affect all management practices, but their effect is felt keenly in managing the organisation's human resources, because whatever happens to an organisation ultimately influences what happens to its employees. So,

before we review the HRM process, let’s examine one external force that affects it – the legal environment.

What is the legal environment of HRM?

Managers aren't completely free to choose who they hire, promote or fire. As a manager, it will be important for you to know what you can and cannot do, legally. HRM practices are governed by laws, which vary from country to country. Within countries, state or provincial and local regulations further influence specific practices. Although these regulations have significantly helped to reduce employment discrimination and unfair employment practices, they have, at the same time, reduced management's discretion over HR decisions. Consequently, managers need to scan their regulatory environment constantly and keep abreast of legal requirements.

General Electric is a multinational employer committed to observing all the different labour laws of the 160 countries in which it operates. Shown here are employees of GE's wind turbine factory in Vietnam, a country whose Labour Code was first passed in 1994 and provides strong protections for employees.

Hoang Dinh Nam/AFP/Getty Images/Newscom

What are the primary laws affecting HRM in Australia?

Legislation relating to HRM in Australia deals primarily with conditions of employment and work. **Table 9.1** illustrates the major federal Acts that influence HRM in Australia. As you can see, they mostly deal with how employment conditions can be determined (e.g. *Fair Work Act 2009; Fair Work Amendment Act 2013*), ensuring that conditions are fair and equitable rather than discriminatory (e.g. *Disability Discrimination Act 1992; Age Discrimination Act 2004; Sex Discrimination Act 1984; Racial Discrimination Act 1975*) and providing a safe workplace that protects individuals (e.g. *Crimes Act 1914; Privacy Act 1988; Safety, Rehabilitation and Compensation Act 1988; Privacy Amendment (Enhancing Privacy Protection) Act 2012*). To understand exactly how regulation and legislation influence managerial decisions, let's consider anti-discrimination legislation.

Table 9.1 Major federal HRM laws

Source: Federal Register of Legislation, ***https://www.legislation.gov.au****.*

Acts such as the *Equal Opportunity for Women in the Workplace Amendment Act 2012* specify that decisions about employment should be made on the basis of merit. As a result, today's employers must ensure that equal employment opportunities exist for job applicants and current employees. Decisions regarding who will be hired, for example, or which employees will be chosen for a management training program must be made without regard to race, sex, religion, age, colour, national origin or disability. Exceptions can occur only when special circumstances exist. For example, a local fire brigade can deny employment to a firefighter applicant who is confined to a wheelchair, but if that same individual is applying for a

desk job, such as a dispatcher in the radio room, the disability cannot be used as a reason to deny employment. The issues involved, however, are rarely that clear-cut. For example, employment laws protect most employees whose religious beliefs require a specific style of dress – hijab (head scarf), long shirts, long hair and the like. However, if the specific style of dress may be hazardous or unsafe in the work setting (e.g. when operating machinery), a company could refuse to hire a person who won't adopt a safer dress code.

Rethinking management in a global crisis: Legislating pandemic conditions

As the COVID-19 isolation measures came into effect in Australia, it became apparent that employers and employees needed more flexibility to deal with enforced business closures and the need to self-isolate. To provide it, the Australian federal government introduced dramatic and immediate changes to employment legislation.[5] In Australia, employment conditions in particular industries or jobs are set by awards, which are legal documents that specify minimum wages, working conditions, penalty rates and allowances, and leave provisions. On 8 April 2020, the Fair Work Commission (Australia's national workplace relations tribunal) changed 99 Australian employment awards to temporarily provide new leave provisions to accommodate pandemic conditions.

The first provision was two weeks of unpaid pandemic leave for employees who were prevented from working. This applied to people who were required to self-isolate by government or medical authorities, or who worked for a business affected by restrictions imposed by government or medical authorities (such as government closures of non-essential businesses). Pandemic leave became immediately available to all workers, who were entitled to the full two

weeks even if they worked in casual or part-time positions. The provisions specified that employees didn't have to use all their paid leave before they could access unpaid pandemic leave, and that accessing pandemic leave didn't affect other leave entitlements such as eligibility for long service leave.

The second provision made it possible to extend annual leave by allowing workers to double their leave period and be paid half pay over that time (e.g. they could take four weeks' leave at half pay, rather than two weeks' leave at full pay). Employees on double-time-half pay still accumulated annual leave, carer's leave and sick leave as if they were working full-time during that time.

Changes were also made to the *Fair Work Act* so that employers could require employees to take paid annual leave (e.g. to cover business closures) so long as the employee had at least two weeks of paid annual leave available after that time.

The changes were implemented so quickly and extensively that Christian Porter, Federal Minister for Industrial Relations, later said they achieved in three weeks 'the type of change . . . that you might otherwise wait 30 years to see'.[6]

How do managers identify and select competent employees?

> Learning outcome 9.2 Discuss the tasks associated with identifying and selecting competent employees.

Every organisation needs people to do whatever work is necessary in order for the organisation to do what it is in business to do. How do organisations get those people? And, more importantly, what can they do to ensure they get competent, talented people? This first phase of the HRM process involves three tasks: employment planning, recruitment and downsizing, and selection.

What is employment planning?

> **Supply and demand** don't just relate to economics – **they're also important to HRM**!

- Talent wars rage in the Australian hospitality industry, as shortages of wait staff and chefs cause startups to compete for scarce talent with internationally renowned restaurants and hotels.
- During the latest economic downturn, Boeing cut more than 3,000 jobs, mostly from its commercial airplanes unit. During the same time, it added 106 employees to its defence unit and was looking for several hundred more.[7]

Juggling the supply of human resources to meet demand is a challenge for many companies.

Employment planning is the process by which managers ensure that they have the right number and kinds of people in the right places at the right times, people who are capable of effectively and efficiently completing those tasks that will help the organisation achieve its goals. Employment planning, then, translates the organisation's mission and goals into an HRM plan that will allow the organisation to achieve those goals. The process can be condensed into two steps: (1) assessing current human resources and future human resource needs and (2) developing a plan to meet those needs.

employment planning

The process by which managers ensure they have the right numbers and kinds of people in the right places at the right time

How does an organisation assess its human resource needs?

Managers begin by reviewing the current human resource status. This review is typically done by generating a **human resource inventory**. It's not difficult to generate an inventory in most organisations since the information for it is derived from forms completed by employees. Such inventories might list the name, education, training, prior employment, languages spoken, capabilities and specialised skills of each employee in the organisation. This inventory allows managers to assess what talents and skills are currently available in the organisation.

human resource inventory

A report listing important information about employees, such as name, education, training, skills, languages spoken and so on

Another part of the current assessment is **job analysis**. Whereas the human resources inventory is concerned with telling management what individual employees can do, job analysis is more fundamental. It's typically a lengthy process, one in which workflows are analysed and skills and behaviours that are necessary to perform jobs are identified. For example, what does an international reporter who works for the *Australian Financial Review* do? What minimal knowledge, skills and abilities are necessary for the adequate performance of this job? How do the job requirements for an international reporter compare with those for a domestic reporter or for a newspaper editor? Job analysis can answer these questions. Ultimately, the purpose of job analysis is to determine the kinds of skills, knowledge and attitudes needed to successfully perform each job. This information is then used to develop or revise job descriptions and job specifications.

job analysis
: An assessment that defines jobs and the behaviours necessary to perform them

> Why is **job analysis** so important? Job analysis results in: Job description → describes the job & Job specification →

> describes the person.

A **job description** is a written statement that describes the job – what a person performing that job does, how they do it and why they do things that way. It typically details the job content, environment and conditions of employment. The **job specification** states the minimum qualifications that a person must possess to perform a given job successfully. It focuses on the person and identifies the knowledge, skills and attitudes needed to do the job effectively. The job description and job specification are important documents when managers begin recruiting and selecting. For example, the job description can be used to describe the job to potential candidates. The job specification keeps the manager's attention on the list of qualifications necessary for an incumbent to perform a job and assists in determining whether candidates are qualified. Furthermore, hiring individuals on the basis of the information contained in these two documents helps ensure that the hiring process is merit- and evidence-based and isn't discriminatory.

Ailsa Page, founder of AP Marketing Works, has learnt three important things from staffing her business: (1) get the right person for the job, even if you have to pay more; (2) be clear about what you want staff to do, set priorities and check on work done; and (3) give your staff help and flexibility and you'll be rewarded with loyalty.[8]

Image courtesy of Ailsa Page

job description

A written statement that describes a job

job specification

A written statement of the minimum qualifications that a person must possess to perform a given job successfully

How are future human resource needs determined?

Future human resource needs are determined by the organisation's strategic goals and direction. Demand for human resources (employees) is a result of demand for the organisation's products or services. Managers can estimate future revenues and then predict the number and mix of people needed to reach that revenue. In some cases, however, the situation may be reversed. When particular skills are necessary and in scarce supply, the availability of needed human resources determines revenues. For example, managers of an upmarket chain of aged-care facilities who find themselves with abundant business opportunities are limited in their ability to grow

revenues by their ability to locate and hire qualified nursing staff to fully meet the needs of the residents. In most cases, however, the overall organisational goals and the resulting revenue forecast provide the major input in determining the organisation’s HR requirements.

Classic concepts in today's organisations: Scientifically studying the workplace

Hugo Munsterberg, a pioneer in the field of industrial psychology, is 'generally credited with creating the field'.[9] An admirer of Frederick W. Taylor and the scientific management movement, Munsterberg stated: 'Taylor . . . introduced most valuable suggestions which the industrial world cannot ignore.' Drawing on Taylor's works, Munsterberg stressed the importance of 'efficiently using workers to achieve economic production'. His research and work in showing organisations ways to improve the performance and wellbeing of workers was fundamental to the emerging field of management in the early 1900s.

Today, industrial–organisational (I/O) psychology is defined as the scientific study of the workplace. I/O psychologists use scientific principles and research-based designs to generate knowledge about workplace issues. (Check out the Australian Psychological Society College of Psychologists at **www.groups.psychology.org.au/cop**.) They study topics such as job performance, job analysis, performance appraisal,

compensation, work/life balance, work sample tests, employee training, employment law, personnel recruitment and selection, and so on. Their research has contributed much to the field that we call human resource management. And all of this is due to the early work done by Hugo Munsterberg.

Discuss this

- Why is it important to scientifically study the workplace?
- Do you think it's easier today to scientifically study the workplace than it was back in Munsterberg's day? Why or why not?

After assessing both current capabilities and future needs, managers can estimate talent shortages – both in number and in kind – and highlight areas in which the organisation is overstaffed. They can then develop a plan that matches these estimates with forecasts of future labour supply. Employment planning not only guides current staffing needs but also projects future employee needs and availability.

How do managers reduce their workforce?

When an organisation has too many employees – which may happen when it's faced with an economic crisis, declining market share, or overly aggressive growth, or when it's been poorly managed – eliminating excess workers can help to reduce costs and improve profits. In the past decade or so, and especially in recent years, most global organisations, as well as many government agencies and small businesses, have been forced to shrink the size of their workforce or restructure their skill composition. For instance, Coca-Cola laid off 1,600 to 1,800 of its corporate US and international employees;[10] American Express cut costs by eliminating 4,000 jobs after failing to meet long-term revenue growth targets;[11] and eBay cut 2,400 jobs (7 per cent of its workforce) to enable it to adapt to changing conditions.[12]

When reducing or downsizing a workforce, there are a number of strategies that can be used, as summarised in **Table 9.2**. Obviously, people can be fired, but other restructuring choices may be more beneficial to the organisation. Keep in mind that, regardless of the method chosen, employees suffer. We discuss the impacts of downsizing more fully – for both victims and survivors – later in this chapter.

Table 9.2 Downsizing options

How do organisations recruit employees?

Once managers know their current staffing levels – understaffed or overstaffed – they can begin to do something about it. If the organisation is understaffed and more employees are needed, they can use the information gathered through job analysis to guide them in **recruitment** – that is, the process of locating, identifying and attracting capable applicants.

> ***recruitment***
>
> Locating, identifying and attracting capable applicants

> Needed! **Outstanding job applicants**! Now . . . how do we get those?

Where does a manager recruit applicants?

Applicants can be found by using several sources, including the internet. **Table 9.3** offers some guidance. The source that's used should reflect the local labour market, the type or level of position, and the size of the organisation.

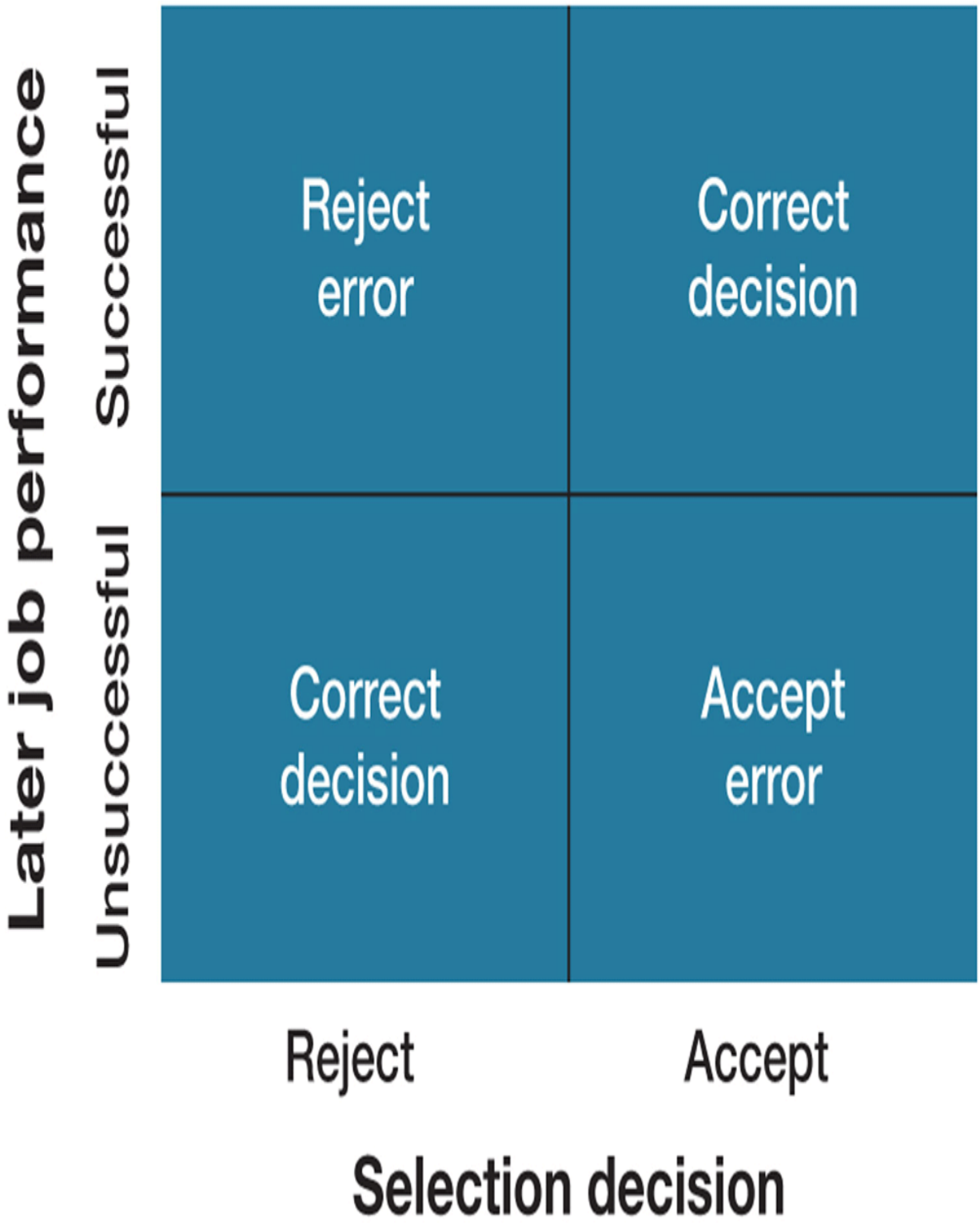
Table 9.3 Recruiting sources

Which recruiting sources tend to produce superior applicants? Most studies have found that employee referrals generally produce the best applicants, for several reasons.[13] First, applicants referred by current employees are pre-screened by those employees. Because the recommenders know both the job and the person being recommended, they tend to refer well-qualified applicants.[14] Second, because current employees often feel that their reputation in the organisation is at stake with a referral, they tend to make referrals only when they are reasonably confident that the referral won't make them look bad. However, managers shouldn't always opt for the employee-referred applicant; such referrals may not increase the diversity and mix of employees.

How do managers select job applicants?

Once the recruiting effort has developed a pool of applicants, the next step in the HRM process is to determine who is best qualified for the job. In essence, then, the **selection process** is a prediction exercise: it seeks to predict which applicants will be 'successful' if hired; that is, who will perform well on the criteria the organisation uses to evaluate its employees. In filling the position of a computer network administrator, for example, the selection process should be able to predict which applicants will be capable of properly installing, debugging, managing and updating the organisation's computer network. For a position as a sales representative, it should predict which applicants will be successful at generating high sales volumes. Any selection decision can result in four possible outcomes. As shown in **Figure 9.2**, two outcomes would indicate correct decisions and two would indicate errors. The purpose of selection techniques is to optimise correct decisions.

Figure 9.2 Selection decision outcomes


Later job performance
Successful
Unsuccessful
Reject error
Correct decision
Correct decision
Accept error
Reject
Accept
Selection decision

selection process

Screening job applicants to ensure that the most appropriate candidates are hired

A decision is correct: (1) when the applicant who was predicted to be successful *was accepted* and later proved to be successful on the job; or (2) when the applicant who was predicted to be unsuccessful *was rejected* and, if hired, wouldn't have been able to do the job. In the former case, we have successfully accepted; in the latter case, we have successfully rejected. Problems occur, however, when we reject applicants who, if hired, would have performed successfully on the job (called *reject errors*) or accept those who subsequently perform poorly (*accept errors*). These problems are, unfortunately, far from insignificant. A generation ago, reject errors only meant increased selection costs because more applicants would have to be screened. Today, selection techniques that result in reject errors can open the organisation to charges of employment discrimination, especially if applicants from protected groups are disproportionately rejected. Accept errors, on the other hand, have obvious costs to the organisation, including the cost of training the employee, the costs generated or profits forgone because of the employee's incompetence, and the cost of severance and the subsequent costs of additional recruiting and selection screening. The *main intent of any selection activity is therefore to reduce the probability of making reject errors or accept errors while increasing the probability of*

making correct decisions. Managers do this by using selection procedures that are both reliable and valid.

What is reliability?

Reliability addresses whether a selection device measures the same characteristic consistently. For example, if a test is reliable, any individual's score should remain fairly stable over time, assuming that the characteristics it's measuring are also stable. No selection device can be effective if it's low in reliability. Using such a device would be the equivalent of weighing yourself every day on an erratic scale. If the scale is unreliable – randomly fluctuating, say, 2 to 3 kg every time you step on it – the results won't mean much. To be effective predictors, selection devices must possess an acceptable level of consistency.

> ***reliability***
>
> The degree to which a selection device measures the same thing consistently

What is validity?

Any selection device that a manager uses – such as application forms, tests, interviews or physical examinations – must also

demonstrate **validity**. Validity is based on a proven relationship between the selection device used and some relevant measure. For example, we mentioned earlier a firefighter applicant who was wheelchair bound. Because of the physical requirements of a firefighter's job, someone confined to a wheelchair would be unable to pass the physical endurance tests. In that case, denying employment could be considered valid, but requiring the same physical endurance tests for the dispatching job wouldn't be job related. Managers must use selection devices that are directly related to successful job performance. They must be able to demonstrate that, once on the job, individuals who performed highly on selection tests outperform individuals who performed less well in selection processes. Consequently, the burden is on the organisation to verify that any selection device it uses to differentiate applicants is related to job performance.

validity
: The proven relationship between a selection device and some relevant criterion

> **Tests** . . . not just for school!

How effective are tests and interviews as selection devices?

Managers can use a number of selection devices to reduce accept and reject errors. The best-known devices include written and performance-simulation tests and interviews. Let's briefly review each device, giving particular attention to its validity in predicting job performance.

Typical *written tests* include tests of intelligence, aptitude, ability and interest. Such tests have long been used as selection devices, although their popularity has run in cycles. Written tests were widely used after World War II, but beginning in the late 1960s, they fell out of favour. They were frequently characterised as discriminatory, and many organisations couldn't validate that their written tests were job related. Today, written tests have made a comeback, although most of them are now internet based.[15] Managers are increasingly aware that poor hiring decisions are costly and that properly designed tests can reduce the likelihood of making such decisions. In addition, the cost of developing and validating a set of written tests for a specific job has declined significantly.

Research shows that tests of intellectual ability, spatial and mechanical ability, perceptual accuracy and motor ability are moderately valid predictors for many semiskilled and unskilled operative jobs in an industrial organisation.[16] However, an enduring criticism of written tests is that intelligence and other tested

characteristics can be somewhat removed from the actual performance of the job itself.[17] For example, a high score on an intelligence test isn't necessarily a good indicator that the applicant will perform well as a computer programmer. This criticism has led to an increased use of performance-simulation tests.

One of the best ways to find out whether an applicant for a technical writing position at Apple can write technical manuals is to ask them to do it! That's why there's an increasing interest in **performance-simulation tests**. Undoubtedly, the enthusiasm for these tests lies in the fact that they're based on job analysis data and are made up of actual job behaviours, rather than substitutes. This makes them more job-related than written tests. The best-known performance-simulation tests are work sampling (a miniature replica of the job) and assessment centres (simulating real problems an individual may face on the job). The former is suited to persons applying for routine jobs, the latter to managerial personnel.

performance-simulation tests
Selection devices based on actual job behaviours

The advantage of performance simulation over traditional testing methods is that simulation content is essentially identical to job

content. Because of this, and the methods used to determine test content, well-constructed performance-simulation tests are valid predictors of short-term job performance. They also minimise potential employment discrimination allegations, as employers can show that hiring decisions were validly based on evidence-based job fit.

The *interview*, along with the application form, is an almost universal selection device. Few of us have ever gotten a job without undergoing at least one interview, although it may perhaps have felt more like an informal chat than a rigorous selection test. The irony of this is that the value of an interview as a selection device has been the subject of considerable debate.[18]

Interviews can be reliable and valid selection tools, but too often they're not. To be effective predictors, interviews need to be structured and well organised, with interviewers asking relevant questions.[19]

But those conditions don't characterise many interviews. The typical interview in which applicants are asked a varying set of essentially random questions in an informal setting often provides little in the way of valuable information. All kinds of potential biases can creep into interviews if they're not well structured and standardised.

What does research tell us about interviewing?

- Prior knowledge about the applicant biases the interviewer's evaluation.
- Interviewers tend to hold a stereotype of what represents a good applicant.
- Interviewers tend to favour applicants who share their own attitudes.
- The order in which applicants are interviewed will influence evaluations.
- The order in which information is elicited during the interview will influence evaluations.
- Negative information is given an unduly high weight.
- Interviewers may make a decision concerning the applicant's suitability within the first four or five minutes of the interview.
- Interviewers may forget much of the interview's content within minutes after its conclusion.
- The interview is most valid in determining an applicant's intelligence, level of motivation and interpersonal skills.
- Structured and well-organised interviews are more reliable than unstructured and unorganised ones.[20]

> How can I be a **good interviewer**?
>
> TIPS FOR MANAGERS: Make interviews more valid and reliable!
>
> - Review the job description and job specification to help in assessing the applicant.
> - Prepare a structured set of questions to ask all applicants for the job.
> - Review an applicant's résumé before meeting them.

- Ask questions and listen carefully to the applicant's answers.
- Write your evaluation of the applicant while the interview is still fresh in your mind.

One last popular modification to interviews has been the behavioural or situation interview.[21] In this type of interview, applicants are observed not only for what they say, but also for how they behave. Applicants are presented with situations – often complex problems involving role playing – and are asked to 'deal' with the situation. This type of interview provides an opportunity for interviewers to see how a potential employee will behave and how they will react under stress. Proponents of behavioural interviewing indicate that such a process is much more indicative of an applicant's performance than simply having the individual tell the interviewer what they have done. In fact, research in this area indicates that behavioural interviews are nearly eight times more effective for predicting successful job performance.[22]

How can you ensure that new employees are satisfied and stay with the organisation?

Interviewers who treat the recruiting and hiring of employees as if the applicants must be sold on the job and exposed only to an organisation's positive characteristics are likely to have a workforce that is dissatisfied and prone to high turnover.[23]

During the hiring process, every job applicant develops a set of expectations about the company and about the job for which they are interviewing. When the information an applicant receives is excessively inflated, a number of things happen that have potentially negative effects on the company:

- Mismatched applicants are less likely to withdraw from the search process.
- Because inflated information builds unrealistic expectations, new employees are likely to become quickly dissatisfied and to resign prematurely.
- New employees are prone to become disillusioned and less committed to the organisation when they face the unexpected harsh realities of the job.
- In many cases, these individuals feel that they were misled during the hiring process and may become problem employees.

It's estimated that around 23 per cent of new employees leave their job within the first year due to unmet expectations, and when you consider that replacing a lost employee can cost up to three times the amount of their salary, you can see why retaining new employees is so important.

To increase job satisfaction among employees and reduce turnover, managers should consider a **realistic job preview (RJP)**.[24] An RJP includes both positive and negative information about the job and the company. For example, in addition to the positive comments typically expressed in the interview, the applicant is told of the less

attractive aspects of the job. For example, they might be told that there are limited opportunities to talk to co-workers during work hours, that the chances of being promoted are slim, or that work hours fluctuate so erratically that employees may be required to work during what are usually off hours (nights and weekends). Research indicates that applicants who have been given a realistic job preview hold lower and more realistic job expectations for the jobs they will be performing and are better able to cope with the frustrating elements of the job than are applicants who have been given only inflated information. The result is fewer unexpected resignations by new employees.

realistic job preview (RJP)
: A preview of a job that provides both positive and negative information about the job and the company

> It's just as important to ***retain*** **good people** as it is to *hire* them in the first place.

Presenting only positive job aspects to an applicant may initially entice them to join the organisation, but it may be a decision that both parties quickly regret.

How are employees provided with needed skills and knowledge?

> Learning outcome 9.3 Explain how employees are provided with needed skills and knowledge.

If we've done our recruiting and selecting properly, we've hired competent individuals who can perform successfully on the job. But *successful performance requires more than possessing certain skills!* New hires must be acclimatised to the organisation's culture, and be trained and given the knowledge to do the job in a manner consistent with the organisation's goals. To achieve this, HRM uses orientation and training.

How are new employees introduced to the organisation?

Once a job candidate has been selected, they need to be introduced to the job and organisation. This introduction is called **orientation**.[25] The main goals of orientation are to:

- reduce the initial anxiety all new employees feel as they begin a new job
- familiarise new employees with the job, the work unit and the organisation as a whole
- facilitate the outsider–insider transition.

> ***orientation***
>
> Introducing a new employee to the job and the organisation

Job orientation (1) expands on the information the employee obtained during the recruitment and selection stages; (2) clarifies the new employee's specific duties and responsibilities, as well as how their

performance will be evaluated; and (3) corrects any unrealistic expectations new employees might hold about the job.

Work unit orientation (1) familiarises an employee with the goals of the work unit; (2) clarifies how their job contributes to the unit's goals; and (3) provides an introduction to their co-workers.

Organisation orientation (1) informs the new employee about the organisation's goals, history, philosophy, procedures and rules; (2) clarifies relevant HR policies such as work hours, pay procedures, overtime requirements and benefits; and (3) may include a tour of the organisation's physical facilities.

Managers have an obligation to make the integration of a new employee into the organisation as smooth and anxiety-free as possible. Successful orientation, whether formal or informal:

- results in an outsider–insider transition that makes the new member feel comfortable and fairly well-adjusted
- lowers the likelihood of poor work performance
- reduces the probability of a surprise resignation by the new employee only a week or two into the job.[26]

What is employee training?

On the whole, planes don't cause airline accidents; people do. Most collisions, crashes and other airline mishaps – nearly three-quarters

of them – result from errors by the pilot or air traffic controller, or from inadequate maintenance. Weather and structural failures typically account for the remaining accidents.[27] We cite these statistics to illustrate the importance of training in the airline industry. Such maintenance and human errors could be prevented or significantly reduced by better employee training, as shown by the unbelievably amazing 'landing' of US Airways flight 1549 in New York's Hudson River in January 2009 with no loss of life. Pilot Captain Chesley Sullenberger attributed the positive outcome to the extensive and intensive training that all pilots and flight crews undergo.[28]

Employee training is a learning experience that seeks a relatively permanent change in employees by improving their ability to perform on the job. Thus, training involves changing skills, knowledge, attitudes or behaviour.[29] This change may involve what employees know, how they do their work, or their attitudes towards their jobs, co-workers, managers and the organisation. Australian employers spend millions of dollars each year on formal courses and training programs to develop workers' skills. Managers, of course, are responsible for deciding when employees are in need of training and what form that training should take.

employee training

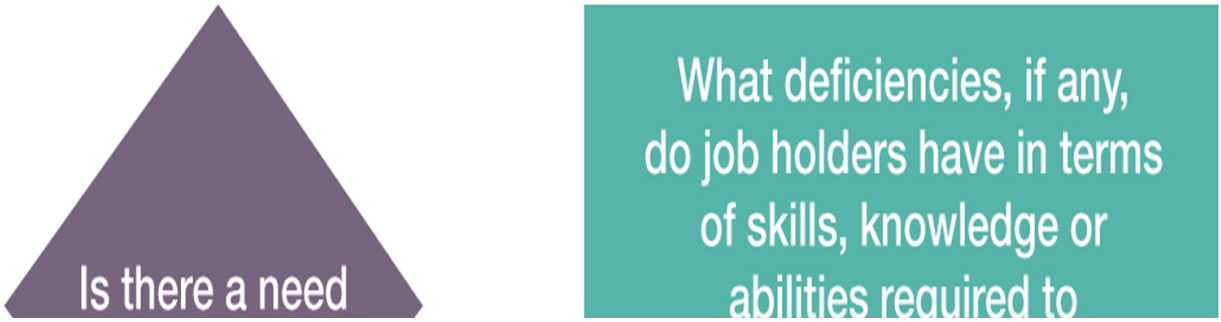
A learning experience that seeks a relatively permanent change in employees by improving their ability to perform on the job

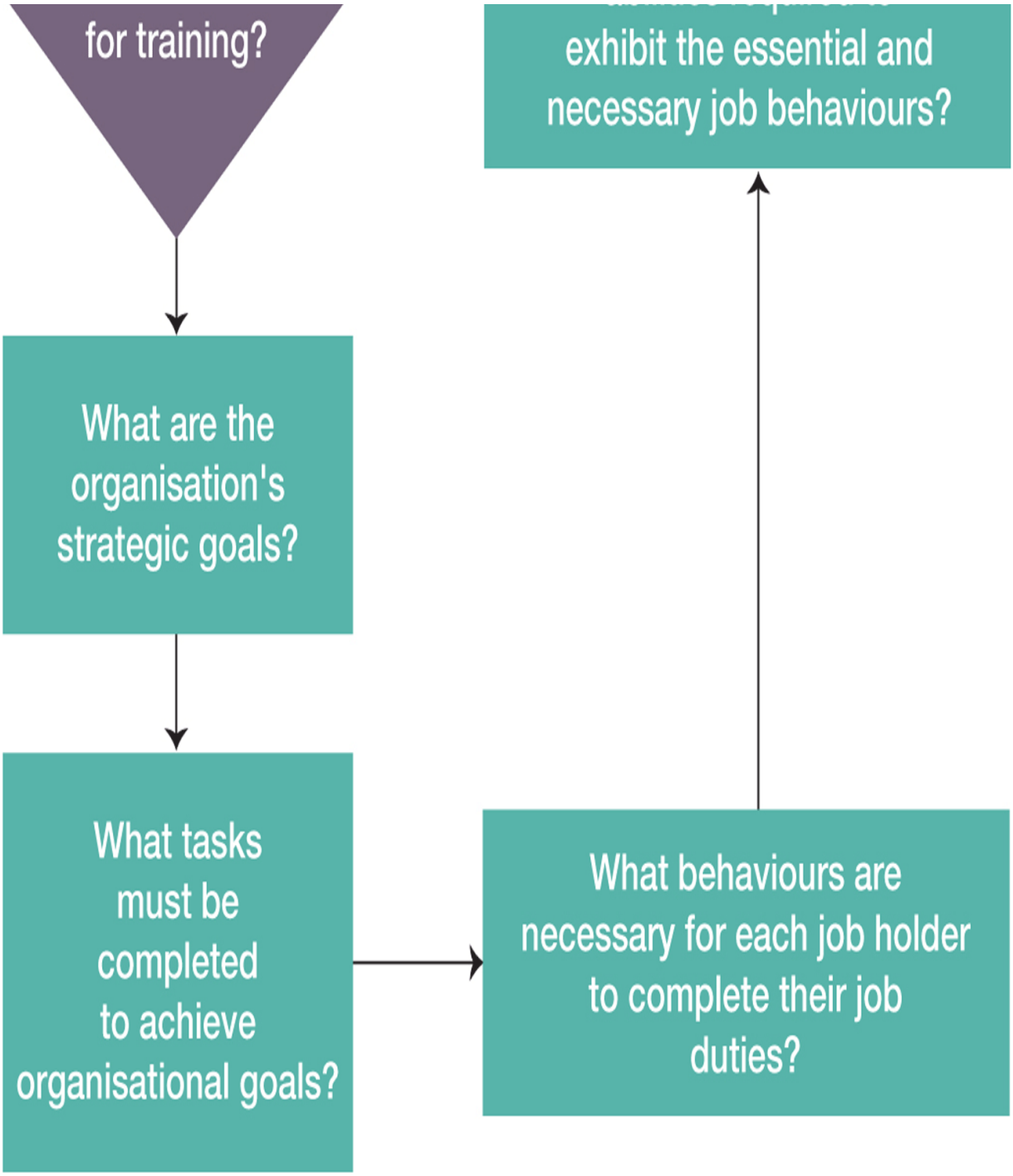
Determining training needs typically involves answering several questions. If some of these questions sound familiar, you've been paying close attention. It's precisely the type of analysis that takes place when managers develop an organisational structure to achieve their strategic goals – only now the focus is on the people.[30]

When is training needed?

The questions in **Figure 9.3** suggest the kinds of signals that can warn a manager when training may be necessary. The more obvious ones are related directly to productivity. Indications that job performance is declining include decreases in production numbers, lower quality, more accidents, and higher scrap or rejection rates. Any of these outcomes might suggest that worker skills need to be fine-tuned. Of course, we're assuming that an employee's performance decline is in no way related to lack of effort. Managers, too, must also recognise that training may be required because the workplace is constantly evolving. Changes imposed on employees as a result of job redesign or a technological breakthrough also require training.

Figure 9.3 Determining whether training is needed





How are employees trained?

Most training takes place on the job, because it's simpler and usually costs less than off-the-job training. However, on-the-job training can disrupt the workplace and may result in an increase in errors while learning takes place. Also, some skill training is too complex to learn on the job and must take place outside the work setting. **Table 9.4** summarises some of the most popular training methods used in today's organisations.

Table 9.4 Training methods

Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 353. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

These days, many organisations are also using technology to enhance employee training. McColl's Transport, which specialises in transporting milk, bulk foods and specialised chemicals around Australia by truck, uses simulators to provide off-the-job training in safe and efficient driving to its fleet of truck drivers. Drivers are trained to handle a range of different road types, weather conditions and traffic conditions, and are given the opportunity to practise handling situations such as a tyre blowout and stopping a safe distance behind other traffic. Drivers who complete simulator training not only drive better, but also use up to 9 per cent less fuel, saving the business money.[31]

E-learning is also becoming a popular way to train staff, because employees can complete it on the job or off the job. E-learning programs involve employees completing online learning modules to develop and assess their knowledge. This can help them to gain and

keep employment. For example, anyone in Australia whose job involves serving alcohol to customers (such as a waiter or bartender) is required by law to be trained in the Responsible Service of Alcohol. Individuals who need such training can complete e-learning programs on their smartphones or tablets and then, when they successfully complete the training, can print off a certificate of completion as evidence of their learning.[32] Using technology to deliver necessary knowledge, skills and attitudes has many benefits, such as providing access to specialised expertise that isn't available locally. For example, Asthma Australia uses an e-learning program to educate teachers and other staff in preschools and primary schools about supporting children with asthma.[33] E-learning allows them to reach educators who work in remote locations and cannot attend face- to-face training. As one researcher said, 'The ultimate purpose of e-learning is not to reduce the cost of training, but to improve the way your organisation does business.' Unilever, for example, found that after e-learning training for sales employees, sales increased by several million dollars.

On-the-job training and development accounts for 70 per cent of employee learning. Regular one-on-one coaching conversations with employees about their developmental goals and strategies are a valuable and effective way for managers to learn about their employees' motivations, understand how their work contributes to the organisation's mission and strategic objectives, provide timely feedback, and help people enhance their knowledge, skills and job performance.[34]

Marcin Balcerzak/Shutterstock

How can managers ensure that training is working?

It's easy to generate a new training program, but if training efforts aren't evaluated, it may be a waste of resources. Training programs are typically evaluated by asking for opinions from managers, representatives from HRM, and a group of workers who have recently completed the training program. If the comments are generally positive, the program may get a favourable evaluation and it's continued until someone decides, for whatever reason, that it should be eliminated or replaced.

Such reactions from participants or managers, while easy to acquire, are the least valid. Their opinions are heavily influenced by factors that may have little to do with the training's effectiveness, such as difficulty, entertainment value or the personality characteristics of the instructor. However, trainees' reactions to the training may, in fact, provide feedback on how worthwhile the participants viewed the training to be. Beyond general reactions, however, training must also be evaluated in terms of how much the participants learnt, how well they are using their new skills on the job (did their behaviour change?), and whether the training program achieved its desired results (reduced turnover, increased customer service, etc.).[35] With this information, organisations can determine their return on investment in training.

How do organisations provide a safe working environment?

> Learning outcome 9.4 Discuss how organisations provide a safe working environment.

Organisations have a legal, moral and business obligation to provide safe and healthy working environments.[36] Legislation such as the *Work Health and Safety Act 2011* (Cth) establishes a legal requirement for organisations to provide a healthy and safe workplace and to minimise the risk of accident, injury or disease to anyone associated with the work process. Employers and employees both have a moral obligation to maximise workplace safety. It's just as socially irresponsible for employees to behave in an unsafe manner as it is for an employer to place employees at unnecessary risk. The costs of workplace injuries also create a compelling business case for keeping workplaces as safe and healthy as possible. Every year in Australia, over 640,000 people experience a work-related injury or illness, with an estimated cost to the Australian economy of $57.5 billion. Moreover, organisations with safe and healthy workplaces report less damage to plant and equipment, have lower insurance and compensation costs, and lose less work time. The human, productivity and financial costs of injuries and accidents mean prevention is far better than cure.

Ensuring **workplace health and safety** depends on establishing attitudes and behaviours that minimise accidents and injuries. The key issue is ensuring that workplaces accommodate human needs so that they are both productive and health preserving. Training about workplace health and safety builds awareness of managerial and employee responsibilities and helps put health and safety issues 'on the radar'. Workplace health and safety audits can be conducted to identify organisational policies and practices that don't comply with legislative requirements, trends in workplace injuries or accidents, and strategies for improving health and safety in the organisation. Ensuring a safe and healthy workplace depends on identifying, eliminating and/or controlling workplace hazards that are potential sources of harm. These hazards might include excessive heat or cold, noise, dangerous substances (e.g. chemicals), equipment that could harm employees through electrocution or maiming, or spaces that present risks of tripping, slipping or falling (e.g. from high places). Hazards can also include work practices that encourage unhealthy behaviour, such as repetitive strain injury, driving long distances before working or without adequate rest stops, or dysfunctional workplace cultures that de-emphasise worker health or promote cavalier attitudes ('she'll be right').

workplace health and safety

Providing a safe and healthy work environment

Training programs, reviews of work practices and job design, safety equipment, safe handling policies and warning systems all contribute to providing safer and healthier workplaces. Consultation with employee groups, unions, consultants and government agencies can all help to develop safer policies and practices. Effective monitoring of productivity, absenteeism, accident and injury rates, and worker's compensation claims can also help by identifying opportunities to further improve health and safety in the workplace and to provide feedback about the impact of initiatives put in place.

A question of ethics: Being responsible

Employers have a legal and moral obligation to ensure that people are safe in their workplace. But what about employees? Consider the following situation.

A driver for a courier company is finishing their deliveries for the day. Due to delays caused by a car accident on a major highway, the driver has fallen behind schedule. They know it will take about two hours to complete their remaining deliveries, but they have already been driving for eight hours today. They know from their company training that driving for another two hours will cause fatigue, which will slow their response times and increase their chances of having an accident.

Discuss this

- Is it unethical for the driver to choose to do something they know is unsafe?
- If the driver MUST complete their deliveries today, what can they do to fulfil their moral obligation to operate as safely as possible?

How do organisations retain competent, high-performing employees?

> Learning outcome 9.5 Describe strategies for retaining competent, high-performing employees.

Once an organisation has invested significant dollars in recruiting, selecting, orienting and training employees, it wants to keep them, especially the competent, high-performing ones! Two HRM activities that play a role in this are managing employee performance, and developing an appropriate compensation and benefits program.

What is a performance management system?

It's important for managers to get their employees to achieve performance levels that the organisation considers desirable. A **performance management system** is a process of establishing performance standards and evaluating performance in order to arrive at objective HR decisions – such as pay increases and training needs – as well as to provide documentation to support any personnel actions. The formal means of assessing the work of employees in organisations is through a systematic performance appraisal process. We list specific appraisal techniques in **Table 9.5**.

Table 9.5 Performance appraisal methods

performance management system
A system that establishes performance standards that are used to evaluate employee performance

The *written essay* entails the manager writing an evaluation of the employee's performance. It's simple to use and popular, as it doesn't require complex forms or extensive training to complete. However, a 'good' or 'bad' appraisal may be determined as much by the evaluator's writing skill as by the employee's actual level of performance.

The use of *critical incidents* focuses the evaluator's attention on critical or key behaviours. The appraiser writes down anecdotes describing whatever the employee did that was especially effective or ineffective. The key here is that specific behaviours are cited, not vaguely defined personality traits.

Graphic rating scales list a set of performance factors such as quantity and quality of work, job knowledge, cooperation, loyalty, attendance, honesty and initiative. The evaluator then rates each factor on an incremental scale. An approach that has received renewed attention involves *behaviourally anchored rating scales (BARS*).[37] These scales combine major elements from the critical incident and graphic rating scale approaches. The appraiser rates an employee according to items along a numerical scale, but the items are examples of actual behaviour on a given job rather than general descriptions or traits.[38]

Finally, a **360-degree appraisal**[39] seeks performance feedback from such sources as the person being rated, bosses, peers, team members, customers and suppliers. It's being used in organisations such as KPMG, HSBC and Avant Mutual Group to get a fuller picture

of how staff are performing.[40] The 360-degree appraisal has become popular partly because in today's dynamic organisations, traditional performance evaluation systems may be archaic.[41] Downsizing has given supervisors greater responsibility and more employees who report directly to them. Accordingly, it may be next to impossible for supervisors to have extensive job knowledge of each of their employees. Furthermore, the growth of project teams and employee involvement places the responsibility for evaluation where people are better able to make accurate assessments.[42]

360-degree appraisal

An appraisal device that seeks feedback from a variety of sources for the person being rated

The 360-degree feedback process also has some positive benefits for development concerns.[43] Many managers simply don't know how their employees view them and the work they have done. Research studies into the effectiveness of 360-degree performance appraisals report positive results, including more accurate feedback, empowering employees, reducing the subjective factors in the evaluation process and developing leadership in an organisation.[44]

Should people be compared to one another or against a set of standards?

The methods previously identified have one thing in common: they require us to evaluate employees on the basis of how well their performance matches established or absolute criteria. Multiperson comparisons, on the other hand, compare one person's performance with that of one or more individuals. These are relative, not absolute, measuring devices.

The three most popular forms of this method are group-order ranking, individual ranking and paired comparison. *Group-order ranking* requires the evaluator to place employees into a particular classification, such as 'top fifth' or 'second fifth'. If a rater has 20 employees, only four can be in the top fifth and, of course, four must be relegated to the bottom fifth. The *individual ranking* approach requires the evaluator to list employees in order from highest to lowest. Only one can be 'best'. In an appraisal of 30 employees, the difference between the first and second employee is assumed to be the same as that between the 21st and 22nd. Even though some employees may be closely grouped, no ties are allowed. In the *paired comparison* approach, each employee is compared with every other employee in the comparison group and rated as either the superior or weaker member of the pair. After all paired comparisons are made, each employee is assigned a summary ranking based on the number of superior scores they achieved. Although this approach ensures that each employee is compared against every other

employee, it can become unwieldy when large numbers of employees are being assessed.

What happens if an employee's performance isn't up to par?

If, for some reason, an employee isn't meeting their performance goals, their manager needs to find out why. If it's because the employee is mismatched for the job (a hiring error) or doesn't have adequate training, the solution is relatively simple. The manager can either reassign the employee to a job that better matches their skills or train them to do the job more effectively. If the problem is associated with the employee's lack of desire to do the job, not with their abilities, it becomes a **discipline** problem. In that case, the manager can try counselling and, if necessary, take disciplinary action such as issuing verbal and written warnings to the employee, suspending them, or even terminating their employment.

Mystery shopper evaluations are one way in which organisations can get feedback about the quality of an employee's customer service. Mystery shoppers interact with sales staff as if they were a legitimate customer and then complete an evaluation of the service they received. Evaluations indicate the specific areas in which employees performed as expected (e.g. by following company procedures for sales processes) and those in which improvements might be needed. Some companies also offer incentives for good performance, such as

paying an employee the amount of their evaluation score as a cash bonus.

Wavebreakmedia/Shutterstock

discipline

Actions taken by a manager to enforce an organisation's standards and regulations

Employee counselling is a process designed to help employees overcome performance-related problems. Rather than viewing the performance problem from a punitive standpoint (discipline), employee counselling attempts to uncover why employees have lost their desire or ability to work productively. More importantly, it's designed to find ways to fix the problem. In many cases, employees don't go from being productive one day to being unproductive the next. Rather, the change happens gradually and may be a function of what's occurring in their personal lives. Employee counselling attempts to assist employees in getting help to resolve whatever is bothering them. If an organisation can help an employee to overcome personal problems and get them back on the job quickly, it can avoid the costs of losing the employee and having to recruit, select, orient, train and develop their replacement. Employee counselling isn't intended to lessen the effect of an employee's poor performance, nor is it intended to reduce the employee's responsibility to change

inappropriate work behaviour. If the employee can't or won't accept help, then disciplinary action must be taken.

employee counselling

A process designed to help employees overcome performance-related problems

How are employees compensated?

Although there are exceptions, most of us work for money. What our jobs pay and what benefits we receive fall under the heading of *compensation and benefits*. Determining levels of compensation isn't easy. However, most of us expect to receive appropriate compensation from our employer. Developing an effective and appropriate compensation system is an important part of the HRM process.[45] The goals of **compensation administration** are to design a cost-effective pay structure that will attract and retain competent employees and to provide an incentive for these individuals to exert high energy levels at work. It can assist in attracting and retaining competent and talented individuals who help an organisation to accomplish its mission and goals. In addition, an organisation's compensation system has been shown to have an impact on its strategic performance.[46] Managers must develop a compensation system that reflects the changing nature of work and the workplace in order to keep people motivated.

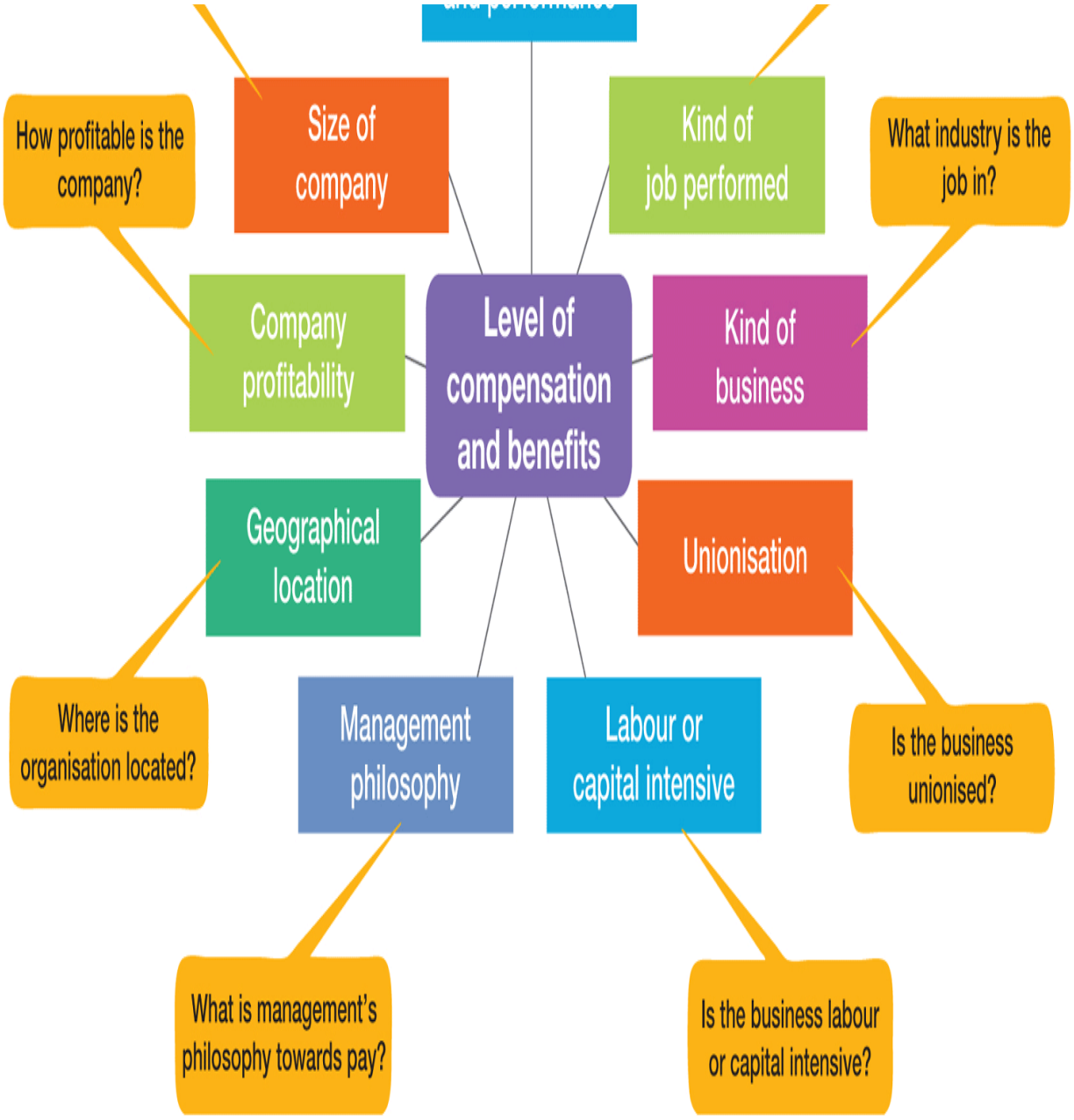
compensation administration

The process of determining a cost-effective pay structure that will attract and retain employees, provide an incentive for them to work hard and ensure that pay levels will be perceived as fair

How are pay levels determined?

Several job-, business- or industry-based factors influence the compensation and benefit packages that different employees receive. **Figure 9.4** summarises these factors. One factor that's critical is the organisation's philosophy towards compensation. Some organisations, for example, don't pay employees any more than they have to, whereas other organisations are committed to a compensation philosophy of paying their employees at or above area wage levels in order to emphasise that they want to attract and keep the best pool of talent.

Figure 9.4 What determines pay and benefits?


Level of compensation and benefits
Size of company
How profitable is the company?
Company profitability
Kind of job performed
What industry is the job in?
Kind of business
Geographical location
Where is the organisation located?
Unionisation
Is the business unionised?
Management philosophy
What is management's philosophy towards pay?
Labour or capital intensive
Is the business labour or capital intensive?

Managing for sustainability: Green HRM

Strategic HRM means using HRM activities to achieve an organisation's strategic goals, including those that relate to sustainability. Green HRM practices help organisations build the knowledge, skills and workforce they need to enhance their impact on the environment.[47] These practices include the following:

- *Green recruitment and selection:* attracting and selecting candidates who have strong and positive awareness, commitment and conscientiousness about environmental issues.
- *Green training:* training employees on environmental issues and the organisation's pro-environment initiatives, in order to develop their skills in environmental protection.
- *Green performance management:* establishing performance targets, performance indicators and performance appraisal criteria related to positive environmental impact. These might include communication about environmental issues, contributions to carbon reductions and development of new green initiatives for the organisation.

- *Green pay and rewards:* using financial and non-financial rewards to encourage and reward employee contributions to environmental goals, such as incentives for using public transport or bicycles to commute to work.

Many organisations are using alternative approaches to determine compensation, including skill-based pay and variable pay. **Skill-based pay** systems reward employees for the job skills and competencies they can demonstrate. Under this type of pay system, an employee's job title doesn't define their pay category; skills do.[48] Research shows that these types of pay systems tend to be more successful in manufacturing organisations than in service organisations, and in organisations pursuing technical innovations.[49] On the other hand, many organisations use **variable pay** systems, in which an individual's compensation is contingent on performance. For example, real estate agents are usually paid using variable pay systems. Agents receive a commission for each sale of property they negotiate, so the more sales they achieve, the more they get paid.

skill-based pay

A pay system that rewards employees for the job skills they demonstrate

variable pay

A pay system in which an individual's compensation is contingent on performance

Why do organisations offer employee benefits?

When an organisation designs its overall compensation package, it has to look further than just an hourly wage or annual salary. It has to take into account another element, **employee benefits**, which are non-financial rewards designed to enrich employees' lives. They have grown in importance and variety over the past several decades and are a key way to offer unique value to organisational members.

employee benefits

Non-financial rewards designed to enrich employees' lives

The benefits offered by an organisation vary widely in scope and may include paid time off from work, life and disability insurance, retirement programs and health insurance.[50] The costs of some of

these, such as retirement and health insurance premiums, may be paid by both the employer and the employee, although organisations are cutting back or putting stipulations on these two costly benefits.

What contemporary HRM issues do managers face?

Learning outcome 9.6 Discuss contemporary issues in managing human resources.

HR issues that today’s managers face include downsizing, workforce diversity, sexual harassment and career development.

How can managers manage downsizing?

Downsizing is the planned elimination of jobs in an organisation. After downsizing, disruptions in the workplace and in employees' personal lives are to be expected. Stress, frustration, anxiety and anger are typical reactions of both individuals being laid off and the job survivors, although it may surprise you to learn that both victims and survivors experience those feelings.[51] Many organisations have helped laid-off employees by offering a variety of employment and job-seeking services, psychological counselling, support groups, severance pay and detailed communications. Although some individuals react negatively to being laid off (the worst cases involve individuals returning to their former organisation and committing a violent act), offers of assistance reveal that an organisation does care about its former employees. While those being laid off get to start over with a clean slate and a clear conscience, survivors don't. Unfortunately, the 'survivors' who retain their jobs and have the task of keeping the organisation going, or even of revitalising it, seldom receive attention. One negative consequence appears to be what is being called **lay off-survivor sickness**, or survivor syndrome, a set of attitudes, perceptions and behaviours of employees who survive involuntary staff reductions.[52] Symptoms include job insecurity, perceptions of unfairness, guilt, depression, stress from increased workload, fear of change, loss of loyalty and commitment,

reduced effort, and an unwillingness to do anything beyond the required minimum.

downsizing
The planned elimination of jobs in an organisation

lay off-survivor sickness
A set of attitudes, perceptions and behaviours of employees who survive lay-offs

To address survivor syndrome, managers may want to provide opportunities for employees to talk to counsellors about their guilt, anger and anxiety.[53] Group discussions can be a way for the survivors to vent their feelings. Some organisations have used downsizing as the spark to implement increased employee participation programs such as empowerment and self-managed work teams. In short, to keep morale and productivity high, managers should make every attempt to ensure that those individuals still working in the organisation know that they are valuable and much-

needed resources. **Table 9.6** summarises some ways that managers can reduce the trauma associated with downsizing.[54]

Table 9.6 Tips for managing downsizing

Organisations also need to be aware that downsizing is traumatising for the managers who do it.[55] Telling an employee that they have been laid off is probably one of the hardest things that a manager has to do. In smaller businesses, it can be especially difficult to do because it's often more personal and employees are more like family. Managers may fear that employees will become highly emotional or angry, and respond with expressions of shock and disbelief or may even cry. Such situations can be very difficult for managers to handle, especially when they haven't had to do it before. Studies have shown that managers who must tell people they've been laid off also experience stress, poor sleep and even health problems, and these problems can often linger. In one study, managers called the lay-offs 'gut-wrenching' and 'devastating'[56] and were more likely than other managers to have stress-related health problems for up to six years after the event.

Rohini Anand is the global chief diversity officer for Sodexo, a global food and facilities services management firm. She is responsible for directing and implementing Sodexo's diversity and inclusion initiatives to ensure that all employees are provided with the best possible work/life experience regardless of their age, gender orientation, nationality, culture or ethnicity.

Mark Kauzlarich/Bloomberg/Getty Images

Managers who have had to deal several times with telling employees they're laid off say that it gets a little easier with experience. They soon learn how to tell people in the least hurtful way and to emphasise that it's *the job* that is being eliminated. However, one manager who had laid off several dozen workers at Union Oil Company in the United States said: 'It's not that you ever lose the butterflies in your stomach or that sinking feeling, but you get better at handling it as something that is not personal.'[57]

How can workforce diversity be managed?

Although we discuss workforce diversity throughout this book, it also affects such basic HRM activities as recruitment, selection and orientation.[58]

Improving workforce diversity requires managers to widen their recruiting net. For example, the popular practice of relying on current employee referrals as a source of new job applicants tends to produce candidates who have similar characteristics to those of present employees. So, managers have to look for applicants in places where they haven't typically looked before. To increase diversity, managers are increasingly turning to non-traditional recruitment sources such as social media sites (e.g. LinkedIn, Instagram, Snapchat, SlideShare, Twitter), urban job banks, disabled people's training centres, ethnic newspapers and gay rights organisations, and are hosting courses or development initiatives to attract people whose interests and knowledge align with the organisation's expertise.[59] This type of outreach should enable an organisation to broaden its pool of applicants.

Once a diverse set of applicants exists, efforts must be made to ensure that the selection process doesn't discriminate. Moreover, applicants need to be made comfortable with the organisation's

culture and be made aware of management's desire to accommodate their needs. In the end, it's HRM that will make the workplace a supportive work environment, one where communication abounds and employees feel free to express themselves. This must be handled with sensitivity so as to ensure that new staff receive fair and reasonable treatment and existing employees don't resent new staff receiving 'special treatment'.

Finally, orientation is often difficult for women and minorities. Many organisations, such as Lotus Cars and the Culture Resource Centre, provide special workshops to raise diversity consciousness among current employees as well as programs for new employees that focus on diversity issues. The thrust of these efforts is to increase individual understanding of the differences each of us brings to the workplace. A number of companies also have special mentoring programs to deal with the reality that lower-level female and minority managers have few role models with whom to identify.[60]

Managing for diversity and inclusion: Mentoring

Finding your way in an organisation – whether it's to fit in, do your job effectively, progress your career, or align your personal and professional lives – can be challenging. That's where **mentoring** can help.[61] Mentoring programs pair up an experienced colleague (the mentor) with a mentee to help them 'learn the ropes', answer their questions and provide them with advice. Peer mentors help mentees learn how the organisation and its culture operate. Career mentors focus specifically on helping mentees meet professional goals such as achieving promotion. Life mentors help mentees align their professional development with their life journeys, such as when new life priorities change people's work priorities. Mentoring helps to improve the mentee's confidence, sense of competence and self-worth. These benefits can be particularly valuable for people from diverse cultural backgrounds. Mentoring can help mentees to deal with clashes between their own culture and the workplace culture. For example, the cultures of Aboriginal and Torres Strait Islander peoples see family and extended family as the most important priority in life, which may clash with the expectations of non-Indigenous workplaces that employees will put work first. Mentoring has also been shown to be more effective than other diversity

initiatives for enhancing the retention and promotion of diverse employees.[62]

mentoring

A process in which new or junior employees are formally paired with a more experienced colleague who provides advice, support and encouragement

What is sexual harassment?

> **Sexual harassment** is a serious issue.

Sexual harassment is a serious issue for all types of organisations and it can occur anywhere. In a global survey of workers in countries including India, China, Saudi Arabia, Sweden, France, Belgium, Germany, the United Kingdom and Poland, nearly 10 per cent of respondees reported that they had been sexually or physically harassed at work.[63] A Human Rights Commission survey in 2012 found that 20 per cent of respondents had experienced sexual harassment in the previous five years. A third of all female respondents, and 10 per cent of male respondents, reported having been sexually harassed.[64]

sexual harassment

Any unwanted or unwelcome sexual behaviour that a reasonable person could have anticipated would possibly make the harassed person feel offended, humiliated or intimidated

In Australia, sexual harassment is defined as any unwanted or unwelcome sexual behaviour [that] a reasonable person could have anticipated would possibly make the harassed person feel offended, humiliated or intimidated.[65] It includes behaviours such as unwelcome touching, hugging or kissing; staring or leering; making suggestive comments or jokes; using or sending sexually explicit pictures, screen savers, poster emails or SMS messages; offering unwanted invitations to go out on dates or provide sex; or asking intrusive questions about an employee's private life or body. Under the *Sex Discrimination Act 1984* (Cth), sexual harassment is illegal whether it is a one-off incident or repeated or continuous behaviour. It is unlawful at the workplace, during working hours, and at work-related activities such as training courses, conferences and office parties.

There are four main reasons why managers need to understand and handle sexual harassment effectively. The first reason is that under the *Sex Discrimination Act*, employers are liable for acts of sexual harassment by their employees unless the employer has taken all reasonable steps to prevent it from taking place. 'Reasonable steps' means that, at a minimum, the employer has done two things: (1) developed, implemented and monitored an appropriate sexual harassment policy that is communicated to all workplace participants; and (2) taken appropriate action if sexual harassment does occur. The second reason is that sexual harassment creates a risk of costly lawsuits. It's estimated that sexual harassment is the single largest financial risk facing companies today – and can result in upwards of a 30 per cent decrease in a company's share price.[66] At Mitsubishi, for example, the company paid out more than US$34 million to 300

women for the rampant sexual harassment to which they were exposed.[67] The third reason is that sexual harassment creates an unpleasant work environment for employees and undermines their ability to perform their jobs. Sexual harassment results in millions of dollars lost in absenteeism, low productivity and turnover.[68] The fourth reason is damage to the organisation's reputation. In recent years, the reputations of organisations including technology company Oracle, the *Age* newspaper, the retail giant David Jones, the Australian Army and Victoria Police have all been damaged by allegations of sexual harassment of employees, which have undermined their standing as potential employers and within the Australian community.[69]

Many organisations now provide harassment training to employees to help them learn how to identify, avoid and deal with harassing behaviour.[70] Training programs usually include group discussions, role-play situations and coaching sessions. Group discussions allow participants to consider different perspectives on harassment issues. Role plays provide insights into harassment situations and ways of dealing with them. During coaching, facilitators work with participants to help them reflect on their understanding of harassment and develop strategies for handling harassment situations.

Organisational success in preventing and managing harassment will, in part, reflect how sensitive each employee is towards others in the company. It means understanding one another and, most importantly, respecting others' rights. Whether behaviour such as sexually explicit language in the office, off-colour jokes or pictures of naked people

are considered offensive depends on the people in the organisation and the environment in which they work. The point here is that we all must be attuned to what makes our fellow employees uncomfortable – and if we don't know, we should ask.

Finally, in a sexual harassment matter, managers must remember that the harasser has rights, too.[71] No action should be taken against someone accused of harassment until a thorough investigation has been conducted. Furthermore, the results of the investigation should be reviewed by an independent and objective individual before any action against the alleged harasser is taken. Even then, the harasser should be given an opportunity to respond to the allegation and have a disciplinary hearing if desired. Additionally, an avenue for appeal should exist for the alleged harasser – an appeal heard by someone at a higher level of management who isn't associated with the case.

> You've got to be attuned to what makes fellow **employees uncomfortable**.

What is career development?

A **career** is the sequence of work positions held by a person during their lifetime. These days, employees increasingly expect – and are expected – to take responsibility for their own careers. This idea of increased personal responsibility for one's career has been described as a *boundaryless career*. The shift to employee-managed careers has several implications for organisations. First, organisations need to adopt a more collaborative approach to career planning. **Career planning** is the process of matching career goals and individual capabilities with opportunities for achieving those goals. Employees looking for growth and developmental opportunities will look inside and outside their current workplace. And, as we discussed in the chapter on organisational structure and design, flattening organisational structures means employees may not have a corporate ladder to move up! Employers therefore have to think more creatively about how they can help employees develop their career in other ways. Helping employees to plan their careers gives organisations the chance to encourage their staff to pursue career goals within the organisation. Second, organisations should think about the 'big picture' of an employee's career. Sometimes, allowing an employee to develop themselves elsewhere means they can bring fresh perspectives back to the organisation. Letting staff pursue opportunities by taking leave without pay provides a win–win situation: the employee develops their talents and the employer gets a more valuable staff member. Third, organisations need to consider

non-traditional sources of employee skills. Employees with the desired capabilities might have developed them by working for volunteer organisations, charities, not-for-profits and aid organisations, so employers should consider non-traditional career pathways as potential sources of valuable staff.

career

The sequence of work positions held by a person during their lifetime

career planning

The process of matching career goals and individual capabilities with opportunities for achieving those goals

Review

Chapter 9 summary

9.1 Describe the key components of the human resource management process and the important influences on that process.
The HRM process consists of eight activities that will staff an organisation with competent, high-performing employees who are capable of sustaining their performance level over the long term. The first three HR activities involve employment planning and include recruitment, downsizing and selection. The next two steps involve helping employees adapt to the organisation and ensuring that their skills and knowledge are kept current, and include the HR activities of orienting and training. The last steps involve identifying performance goals, correcting performance problems and helping employees sustain high levels of performance. These are done using the HR activities of performance appraisal, compensation and benefits, and safety and health. The main influences on the HRM process are legal, although other environmental conditions such as restructuring, downsizing, diversity and so forth can impact it as well.

9.2 Discuss the tasks associated with identifying and selecting competent employees.
The first task is employment planning, which involves job analysis and the creation of job descriptions and job specifications. Then, if job needs are indicated, recruitment involves attempts to develop a pool of potential job candidates. Downsizing is used to reduce the

labour supply. Selection involves determining who is best qualified for the job. Selection devices need to be both reliable and valid. Managers may want to give potential employees a realistic job preview.

9.3 Explain how employees are provided with needed skills and knowledge.

New hires must be acclimatised to the organisation's culture and be trained and given the knowledge to do the job in a manner consistent with the organisation's goals. Orientation – job, work unit and organisational – provides new employees with information to introduce them to the job. Training is used to help employees improve their ability to perform on the job.

9.4 Discuss how organisations provide a safe working environment.

Organisations provide safe working environments by establishing attitudes and behaviours that minimise accidents and injuries, and by ensuring that workplaces are accommodative of human needs and preserve health. Training about workplace health and safety builds awareness of managerial and employee responsibilities and helps put health and safety issues 'on the radar'. Workplace health and safety audits identify organisational policies and practices that don't comply with the requirements of safety legislation, trends in workplace injuries or accidents, strategies for improving health and safety in the organisation, and hazards that can be eliminated or controlled. Organisations can also use safety equipment, safe handling policies and warning systems to provide safer and

healthier workplaces. Effective monitoring of productivity, absenteeism, accident and injury rates, and worker's compensation claims can also identify opportunities to improve health and safety and provide feedback about the impact of current safety initiatives.

9.5 Describe strategies for retaining competent, high-performing employees.

Two HRM activities that play a role in this are managing employee performance, and developing an appropriate compensation and benefits program. Managing employee performance involves establishing performance standards and then appraising performance to see if those standards have been met. There are various performance appraisal techniques managers can use. If an employee's performance isn't up to par, managers need to assess why and take action. Compensation and benefits programs can help attract and retain competent and talented individuals. Managers have to determine who gets paid what, and what benefits will be offered.

9.6 Discuss contemporary issues in managing human resources.

Downsizing is the planned elimination of jobs and must be managed from the perspectives of the lay-off victims and survivors, and the managers. Workforce diversity must be managed through HRM activities including recruitment, selection and orientation. Sexual harassment is a significant concern of organisations and managers, which means programs and mechanisms must be in place to educate all employees about it.

Discussion questions

9.1 How does HRM affect all managers?
9.2 Imagine you are the store manager of your local independent supermarket. Which of the HRM areas depicted in **Figure 9.1** do you think you would be directly involved in?
9.3 Some critics claim that corporate HR departments have outlived their usefulness; that their purpose isn't to help employees but to shield the organisation from legal problems. What do you think? What benefits are there to having a formal HRM process? What are the drawbacks?
9.4 Do you think it's ethical for a prospective employer to delve into an applicant's life by means of interviews, tests and background investigations? What if those investigations involved looking at your Facebook, Instagram or Twitter accounts? Explain your position.
9.5 Which recruiting sources would you use to recruit for the position of (a) a hairdresser, (b) a school principal, and (c) a CEO?
9.6 Discuss the advantages and drawbacks of the various selection devices.
9.7 What are the benefits and drawbacks of realistic job previews? (Consider this question from the perspective both of the organisation *and* of a potential employee.)
9.8 List the factors that influence employee compensation and benefits.

9.9 What, in your view, constitutes sexual harassment? Describe how companies can minimise sexual harassment in the workplace.
9.10 Discuss the external environmental factors that most directly affect the HRM process.

Management skills spotlight: Providing good feedback

Everyone needs feedback! If you want people to do their best, they need to know what they're doing well and what they can do better. That's why providing feedback is so important. But being effective at giving feedback is tricky! That's why we often see managers either (a) not wanting to give feedback, or (b) giving feedback in such a way that it doesn't result in anything positive.

Experiential exercise

Job interviews are one of the most common selection tests used in organisations. When they are done well, they provide valid and reliable evidence as to how people are likely to perform on the job. Like any test, they have to be performed consistently so every applicant experiences the same test conditions. But that's harder than it sounds!

In this exercise, you will interview three 'job applicants' so you can see what it takes to conduct the interviews the same way every time, and what might prevent you from doing that.

1. Imagine you are hiring someone to either (a) walk your dog for you, or (b) clean your house.
2. Develop some interview questions you would ask someone in order to determine whether they would be suitable to hire for that job.
3. Do some online research about conducting job interviews and develop some techniques to help you conduct the interviews the same way every time.
4. Select three friends or classmates and interview each one for the job.
5. Now reflect on your experiences.
    a. Describe what happened. How were the interviews different from each other? What happened in one/some

but not in the other(s)?

b. Interpret your experience. Why do you think things played out differently in some interviews than in others?
c. Evaluate your experience. What did you learn about the factors that can cause selection interviews to play out differently?
d. How could you apply your insights in the future? What would you do differently next time you are conducting selection interviews to make them more consistent?

Case application: Facilitating change or forcing conformity?

How do you know when a new HR strategy is *really* working? That's the question faced by NexGeneration, a large multinational professional services organisation that assists its clients with strategic planning, management and human resource management. Three years ago, NexGeneration Australia's CEO, Graham Leveroid, announced that the company would develop an Aboriginal and Torres Strait Islander Reconciliation Action Plan as 'an opportunity to engage with Australia's Indigenous peoples to acknowledge history, understand experiences and to support reconciliation through collaboration'. The plan committed NexGeneration to 2.5 per cent Indigenous employment within three years, so that its workforce reflected the proportion of working-age Indigenous people in the Australian population.

Thomas Jacobs, an Indigenous man, joined the Human Resource Management consulting division of NexGeneration Australia a year ago as an experienced HR consultant. He worked specifically with NexGeneration clients who were interested in reconciliation and Indigenous recruitment. He

reported to Rebecca Worthington, a senior consultant who managed four staff in the HRM consulting division.

Rebecca soon became concerned about Thomas's performance. As he was rarely in the office, it was difficult for her to determine how many hours he was spending working for each of his clients and hence how much to bill them for his services. Additionally, while his clients seemed to be achieving Indigenous engagement, Rebecca was unsure how to measure reconciliation or how to determine whether the Indigenous employment strategies he had developed were really working. She raised her concerns with her boss, Sally Jones, the senior manager of the HRM consulting division, and she and Sally decided to meet together with Thomas the next time he was in the office.

At that meeting, Thomas explained that his four clients were all making real progress with their reconciliation action plans. Local Indigenous communities were starting to feel welcome to visit the clients' workplaces and were beginning to see that there were opportunities for their young people to come onboard. When Sally outlined Rebecca's concerns, Thomas looked surprised. 'I'm working all the time. Meeting, yarning, advocating. Days, weekends, evenings,' he said.

Sally explained that as they didn't observe him working, they couldn't bill his clients for his hours. Thomas stormed out of the room, slammed the door, and didn't return to the office for nearly two weeks. When he finally appeared, looking exhausted, Rebecca told him that, because of his behaviour at

the meeting and his lack of communication in the weeks since, his position with the company was terminated. Thomas became angry and swore at Rebecca, who called security to escort him from the building.

Later that day, when Thomas's mother learnt he had lost his job, she blamed herself. 'If I hadn't crashed my car and been in hospital, he could have kept his white-fella job.' Thomas reassured that her everything would be okay, and soon he got a great new job with Big Vision Consulting. Two of his clients from NexGeneration followed him to Big Vision in order to keep working with him. A few months later, Thomas ran into his cousin Jenny, who had just been employed as an administrator at NexGeneration. She commented that the pay was good, but said: 'I'm never at my desk. I've been made the Indigenous representative on three committees.' (She rolled her eyes.) She added that she hoped the job would be better than her administrative cadetship, which she had quit because although her role had been extended, it wasn't challenging and there was no career progression.

When Sally and Rebecca learnt that Thomas was now employed at Big Vision and still working with two of NexGeneration's former clients, they re-advertised the Indigenous HR consulting role. It took several months to replace Thomas in that position, and they made sure his replacement spent more time at the office to generate more billable hours. When Sally was later finalising her Indigenous employment report, she had a nagging suspicion that things

might have worked out better with her Indigenous staff. But, as she noted in her report, the Indigenous employment indicators were positive for her division – in fact, Indigenous staff represented 9 per cent of the company's workforce. This news was well received by CEO Graham Leveroid, and the HR division became known as a company flagship for Indigenous employment.

Discussion questions

9.11 What environmental influences are contributing to the growing use of Aboriginal and Torres Strait Islander reconciliation action plans (**Hint:** Review the chapter on aspects of the external organisational environment.)

9.12 Realistic job previews help in retaining new employees. If you were writing a realistic job preview for Thomas's role, what would you include? Why?

9.13 How could Rebecca have used employee counselling to help Thomas better meet NexGeneration's performance expectations?

9.14 What does the case illustrate about the challenges of managing workforce diversity? Do you think NexGeneration has a sincere commitment to diversity, or just a superficial one? How could NexGeneration improve its support for its Indigenous employees?

Running case: Holiday home helpers: Strategically using HRM for success

Mia met with Sierra, the head of HHH's human resource management team, to find out more about the company's approach to HRM.

'The HRM team operate as strategic partners to the regional managers,' said Sierra. 'Our job is to help the regional managers understand how HRM can assist them to achieve the company's strategic goals in their region. For instance, to achieve the company's growth objectives last year, one of our regional managers needed to hire a lot of new cleaning staff. He was going to recruit through Seek, but we encouraged him to try an employment assistance scheme instead. The scheme provided pre-vetted employees on a trial basis, with the government paying their wages for the trial period. It also paid us a bonus if we hired those workers permanently and if they stayed in the job for at least six months. So, the manager got his new staff, saved money on the recruitment campaign and got the bonus money for the company.

‘We’re also responsible for making sure all of HHH’s policies and procedures are legally compliant and best practice. For example, we’ve been trying to diversify our staff profile, so we’ve needed to review our recruitment and selection practices to ensure they’re not discriminatory. We realised that some of the wording we used in our job ads and position descriptions reflected some unconscious biases within the company around the qualities associated with leadership. So, we’ve had those rewritten to make them more balanced and inclusive.’

‘Do you handle orientation and training for new staff?’ asked Mia.

‘Indirectly. We develop procedures and resources that can then be adapted and used in each region,’ said Sierra. ‘That way, we can ensure that people are getting consistent messages about company-wide issues, but we can also accommodate regional differences in operational matters. For instance, the information about our company policy on sexual harassment and the procedures we use to deal with harassment is standardised, but includes locally added information such as the contact number for the regional manager.’

‘What about safety information and training?’ Mia asked.

‘Same approach,’ said Sierra. ‘We use video resources for safety training because it’s efficient and cost effective for us to record those ourselves. For instance, we have a whole suite

of videos that relate to safe cleaning practices. When we have a new client come on board, we do a safety audit of their holiday home to develop a property-specific safety profile as well, in which we flag any particular issues or safety hazards that staff need to be aware of.'

'How do you know whether staff are getting the right information? And are following the safety guidelines you give them?'

'We go undercover,' said Sierra, laughing. 'Periodically, we send someone into a region posing as a new staff member and we ask them to do a "mystery shopper" evaluation of their orientation and safety training. They report back on what they received, including which resources they were given, and then we check whether that's what they should have gotten.'

'How do your regional managers feel about being spied on like that?' Mia asked.

'Pretty good, if they've done their job right,' said Sierra. 'Because if they get a score on their evaluation of over 90 per cent, they get a bonus from the company. We also do "mystery guest" evaluations to spot check the cleaning and presentation of the properties we manage. If the property is cleaned and presented really well, the staff responsible get a bonus. If not, they get a formal warning. Both outcomes go on their employment record. Getting a good evaluation counts for a lot in our staff development program as well. Three people who currently work in our property presentation teams started

with us as cleaners, but they kept getting such excellent evaluations for their cleaning and presentation of properties we encouraged them to apply for their current roles and they've done really well!'

Discussion questions

9.15 How is HHH practising strategic HRM?

9.16 What sort of recruiting channels would you suggest HHH use to find new cleaning staff? Why would you recommend those channels?

9.17 What are some of the advantages of using pre-recorded videos to teach employees safe cleaning practices? What would be the disadvantages?

9.18 Is it ethical to use 'undercover' evaluators to collect performance information about staff? What issues does it raise? How could those be addressed?

9.19 HHH is attempting to diversify its workforce to include more people who have English as a second language. How might the company need to adapt its HRM to be inclusive of those new employees?

Endnotes

1 Material for this chapter is drawn from D. A. DeCenzo and S. P. Robbins, *Fundamentals of Human Resources Management*, 10th edn (Hoboken, NJ: John Wiley & Sons, 2010).

2 Timboon Fine Ice Cream case based on Business Victoria, 'Creative Staffing Strategies for Country Businesses', 27 August 2019, https://www.business.vic.gov.au/case-studies/creative-staffing-strategies-for-country-businesses, accessed 10 June 2020; Timboon Fine Ice Cream, 'Our Story', https://www.timboonfineicecream.com.au/our-story, accessed 10 June 2020; and Timboon Fine Ice Cream, 'Vintage Ice cream Van', **https://www.timboonfineicecream.com.au/ice-cream-vans**, accessed 10 June 2020.

3 M. Wielemaker and D. Flint 'Why Does HRM Need To Be Strategic? A Consideration of Attempts to Link Human Resources & Strategy', *The Business Review*, vol. 3, no. 2 (2005), pp. 259–64.

4 R. Stone, *Human Resource Management*, 9th edn (Milton, QLD: John Wiley & Sons, 2017), pp. 6–15.

5 Rethinking Management in a Global Crisis box based on Fair Work Australia, 'Unpaid Pandemic Leave and Annual Leave Flexibility in Awards', 8 April 2020, **https://coronavirus.fairwork.gov.au/coronavirus-and-australian-workplace-laws/temporary-changes-to-workplace-laws-during-coronavirus**, accessed 10 June 2020; Fair Work Commission, 'What Is the Fair Work Commission?', **https://www.fwc.gov.au/disputes-at-work/how-the-commission-works/**

video-tour-of-the-commission/what-is-the-fair-work-commission, accessed 10 June 2020; Queensland Government, 'Awards and Wages', **https://www.qld.gov.au/jobs/entitlements/wages**, accessed 10 June 2020; and P. Hartcher, 'The Inside Story of Our COVID Détente', *Sydney Morning Herald*, 20 May 2020.

6 P. Hartcher, 'The Inside Story of Our COVID Détente', *Sydney Morning Herald*, 20 May 2020.

7 P. W. Tam and S. Woo, 'Talent War Crunches Start-Ups', *Wall Street Journal*, 28 February 2011, pp. B1+; and C. Tuna, 'Many Companies Hire as They Fire', *Wall Street Journal*, 11 May 2009, p. B6.

8 Business Victoria, 'Preparing for Staff Recruitment', https://www.business.vic.gov.au/case-studies/preparing-for-staff-recruitment, accessed 9 May 2020.

9 Classic Concepts in Today's Organisations box based on D. A. Wren and A. G. Bedeian, *The Evolution of Management Thought*, 6th edn (Hoboken, NJ: John Wiley & Sons, 2009), pp. 198–200; 'Building Better Organizations: Industrial–Organizational Psychology in the Workplace', Society for Industrial and Organizational Psychology, **www.siop.org**, 13 July 2009; M. Munsterberg, *Hugo Munsterberg: His Life and Work* (New York: Appleton-Century-Crofts, 1922); and H. Munsterberg, *Psychology and Industrial Efficiency* (Boston: Houghton Mifflin Company, 1913).

10 B. Horovitz, 'Layoffs Sting Icons Coca-Cola and McDonald's', *USA Today*, 9 January 2015, p. 5B.

11 B. Tuttle, 'Why These 5 Companies Are Laying off Thousands of Workers', **http://time.com/money/3678511/ebay-amex-baker-hughes-layoffs**, 22 January 2015.

12 B. Tuttle, 'Why These 5 Companies Are Laying off Thousands of Workers', **http://time.com/money/3678511/ebay-amex-baker-hughes-layoffs**, 22 January 2015.

13 J. J. Salopek, 'Employee Referrals Remain a Recruiter's Best Friend', *Workforce Management Online*, December 2010; L. G. Klaff, 'New Internal Hiring Systems Reduce Cost and Boost Morale', *Workforce Management*, March 2004, pp. 76–9; M. N. Martinez, 'The Headhunter Within', *HR Magazine*, August 2001, pp. 48–55; 'Even Non-Recruiting Companies Must Maintain Hiring Networks', *HR Focus*, November 2001, p. 8; and L. Greenhalgh, A. T. Lawrence and R. I. Sutton, 'Determinants of Work Force Reduction Strategies in Declining Organizations', *Academy of Management Review*, April 1988, pp. 241–54.

14 J. J. Salopek, 'Employee Referrals Remain a Recruiter's Best Friend', *Workforce Management Online*, December 2010; 'Employee Referral Programs: Highly Qualified New Hires Who Stick Around', *Canadian HR Reporter*, 4 June 2001, p. 21; and C. Lachnit, 'Employee Referral Saves Time, Saves Money, Delivers Quality', *Workforce*, June 2001, pp. 66–72.

15 J. Mooney, 'Pre-Employment Testing on the Internet: Put Candidates a Click Away and Hire at Modem Speed', *Public Personnel Management*, Spring 2002, pp. 41–52.

16 See, for example, R. D. Arvey and J. E. Campion, 'The Employment Interview: A Summary and Review of Recent Research', *Personnel Psychology*, Summer 1982, pp. 281–322; M. M. Harris, 'Reconsidering the Employment Interview: A Review of Recent Literature and Suggestions for Future Research', *Personnel Psychology*, Winter 1989, pp. 691–726; J. H. Prager, 'Nasty or Nice:

56-Question Quiz', *Wall Street Journal*, 22 February 2000, p. A4; and M. K. Zachary, 'Labor Law for Supervisors', *Supervision*, March 2001, pp. 23–6.

17 See, for example, G. Nicholsen, 'Screen and Glean: Good Screening and Background Checks Help Make the Right Match for Every Open Position', *Workforce*, October 2000, p. 70.

18 R. A. Posthuma, F. P. Morgeson and M. A. Campion, 'Beyond Employment Interview Validity: A Comprehensive Narrative Review of Recent Research and Trends over Time', *Personnel Psychology*, Spring 2002, pp. 1–81.

19 A. I. Huffcutt, J. M. Conway, P. L. Roth and N. J. Stone, 'Identification and Meta-Analysis Assessment of Psychological Constructs Measured in Employment Interviews', *Journal of Applied Psychology*, October 2001, pp. 897–913; and A. I. Huffcutt, J. A. Weekley, W. H. Wiesner, T. G. Degroot and C. Jones, 'Comparison of Situational and Behavioral Description Interview Questions for Higher-Level Positions', *Personnel Psychology*, Autumn 2001, pp. 619–44.

20 See C. H. Middendorf and T. H. Macan, 'Note-Taking in the Employment Interview: Effects on Recall and Judgments', *Journal of Applied Psychology*, April 2002, pp. 293–303; D. Butcher, 'The Interview Rights and Wrongs', *Management Today*, April 2002, p. 4; P. L. Roth, C. H. Can Iddekinge, A. I. Huffcutt, C. E. Eidson and P. Bobko, 'Corrections for Range Restriction in Structured Interview Ethnic Group Differences: The Value May Be Larger than Researchers Thought', *Journal of Applied Psychology*, April 2002, pp. 369–76; and E. Hermelin and I. T. Robertson, 'A Critique and Standardization of Meta-Analytic Coefficients in Personnel Selection',

Journal of Occupational and Organizational Psychology, September 2001, pp. 253–77.

21 See J. Merritt, 'Improv at the Interview', *BusinessWeek*, 3 February 2003, p. 63; P. J. Taylor and B. Small, 'Asking Applicants What They Would Do versus What They Did Do: A Meta-Analysis Comparison of Situation and Past Behavior Employment Interview Questions', *Journal of Occupational and Organizational Psychology*, September 2002, pp. 277–95; S. D. Mauer, 'A Practitioner-Based Analysis of Interviewer Job Expertise and Scale Format as Contextual Factors in Situational Interviews', *Personnel Psychology*, Summer 2002, pp. 307–28; and J. M. Barclay, 'Improving Selection Interviews with Structure: Organizations' Use of Behavioral Interviews', *Personnel Review*, vol. 30, no. 1 (2001), pp. 81–95.

22 J. Merrit, 'Improv at the Interview', *BusinessWeek*, 3 February 2003, p. 63.

23 S. H. Applebaum and M. Donia, 'The Realistic Downsizing Preview: A Management Intervention in the Prevention of Survivor Syndrome (Part II)', *Career Development International*, January 2001, pp. 5–19.

24 D. Zielinski, 'Effective Assessments', *HR Magazine*, January 2011, pp. 61–4; W. L. Gardner, B. J. Reithel, R. T. Foley, C. C. Cogliser and F. O. Walumbwa, 'Attraction to Organizational Culture Profiles: Effects of Realistic Recruitment and Vertical and Horizontal Individualism–Collectivism', *Management Communication Quarterly*, February 2009, pp. 437–72; and S. L. Premack and J. P. Wanous, 'A Meta-Analysis of Realistic Job Preview Experiments', *Journal of Applied Psychology*, November 1985, pp. 706–20.

25 C. Garvey, 'The Whirlwind of a New Job', *HR Magazine*, June 2001, pp. 110–18.
26 B. P. Sunoo, 'Results-Oriented Customer Service Training', *Workforce*, May 2001, pp. 84–90.
27 See, for example, E. G. Tripp, 'Aging Aircraft and Coming Regulations: Political and Media Pressures Have Encouraged the FAA to Expand Its Pursuit of Real and Perceived Problems of Older Aircraft and Their Systems. Operators Will Pay', *Business and Commercial Aviation*, March 2001, pp. 68–75.
28 'A&S Interview: Sully's Tale', *Air & Space Magazine*, 18 February 2009; A. Altman, 'Chesley B. Sullenberger III', *Time*, 16 January 2009; and K. Burke, P. Donohue and C. Siemaszko, 'US Airways Airplane Crashes in Hudson River – Hero Pilot Chesley Sullenberger III Saves All Aboard', *New York Daily News*, 16 January 2009.
29 C. S. Duncan, J. D. Selby-Lucas and W. Swart, 'Linking Organizational Goals and Objectives to Employee Performance: A Quantitative Perspective', *Journal of American Academy of Business*, March 2002, pp. 314–18.
30 R. Langlois, 'Fairmont Hotels: Business Strategy Starts with People', *Canadian HR Reporter*, 5 November 2001, p. 19.
31 M. Blelby, 'Trucking on through a Bust', *BRW*, August–September 2013, pp. 28–9.
32 Galaxy Training Australia, **https://galaxytraining.com.au/online-rsa-rsg-courses.asp**, accessed 27 August 2017.
33. Asthma Australia, 'Asthma First Aid for School Staff', https://elearning.asthmaaustralia.org.au, October 2011, accessed 13 November 2014.

34 M. Valcour, 'A Great Manager Must Be a Great Coach: Here's 5 Tips to Get You Started', *BRW*, 25 July 2014.

35 See, for example, R. E. Catalano and D. L. Kirkpatrick, 'Evaluating Training Programs: The State of the Art', *Training and Development Journal*, May 1968, pp. 2–9.

36 This section based on P. Davidson, A. Simon, P. Woods and R.W. Griffin, *Management*, 4th Australasian edn (Milton, QLD: John Wiley & Sons, 2009), pp. 521–3; Australian Bureau of Statistics, *Work-Related Injuries, Australia, 2005–06* (Canberra: Australian Bureau of Statistics, 2006); Australian Bureau of Statistics, *Australian Social Trends June 2011* (Canberra: Australian Bureau of Statistics, 2011); and Australian Safety and Compensation Council, *The Cost of Work-Related Injury and Illness for Australian Employers, Workers and the Community: 2005–06* (Canberra: Australian Safety and Compensation Council, 2009).

37 A. Tziner, C. Joanis and K. R. Murphy, 'A Comparison of Three Methods of Performance Appraisal with Regard to Goal Properties, Goal Perception and Rate Satisfaction', *Group and Organization Management*, June 2000, pp. 175–90; and T. W. Kent and T. J. Davis, 'Using Retranslation to Develop Operational Anchored Scales to Assess the Motivational Context of Jobs', *International Journal of Management*, March 2002, pp. 10–16.

38 See also C. A. Ramus and U. Steger, 'The Roles of Supervisory Support Behaviors and Environmental Policy in Employee "Ecoinitiatives" at Leading-Edge European Companies', *Academy of Management Journal*, August 2000, pp. 605–26.

39 See L. Atwater and J. Brett, 'Feedback Format: Does it Influence Manager's Reactions to Feedback?', *Journal of*

Occupational and Organizational Psychology, December 2006, pp. 517–32.

40 Based on information from Acelero, '360 Degree Feedback', www.acelero.com.au, accessed 17 September 2010; 'HSBC Testimonial', **www.hotfrog.com.au**, accessed 17 September 2010; and WorkSmart Australia, 'Leadership Practices Inventory: LPI', **www.worksmart.net.au**, accessed 17 September 2010.

41 M. A. Peiperl, 'Getting 360 Feedback Right', *Harvard Business Review*, January 2001, pp. 142–7.

42 T. J. Maurer, D. R. D. Mitchell and F. G. Barbeite, 'Predictors of Attitudes Toward a 360-Degree Feedback System and Involvement in Post-Feedback Management Development Activity', *Journal of Occupational and Organizational Psychology*, March 2002, pp. 87–107.

43 A. Evans, 'From Every Angle', *Training*, September 2001, p. 22.

44 P. Kamen, 'The Way that You Use it: Full Circle Can Build Better Organizations with the Right Approach', *CMA Management*, April 2003, pp. 10–13; M. Kennett, 'First Class Coach', *Management Today*, December 2001, p. 84; and T. A. Beehr, L. Ivanitsjaya, C. P. Hansen, D. Erofeev and D. M. Gudanowski, 'Evaluation of 360 Degree Feedback Ratings: Relationships with Each Other and with Performance and Selection Predictors', *Journal of Organizational Behavior*, November 2001, pp. 775–88.

45 This section based on R. I. Henderson, *Compensation Management in a Knowledge-Based World*, 9th edn (Upper Saddle River, NJ: Prentice Hall, 2003).

46 M. P. Brown, M. C. Sturman and M. J. Simmering, 'Compensation Policy and Organizational Performance: The Efficiency, Operational and Financial Implications of Pay Levels and Pay Structure', *Academy of Management Journal*, December 2003, pp. 752–62; J. D. Shaw, N. P. Gupta and J. E. Delery, 'Pay Dispersion and Workforce Performance: Moderating Effects of Incentives and Interdependence', *Strategic Management Journal*, June 2002, pp. 491–512; E. Montemayor, 'Congruence between Pay Policy and Competitive Strategy in High-Performing Firms', *Journal of Management*, vol. 22, no. 6 (1996), pp. 889–908; and L. R. Gomez-Mejia, 'Structure and Process of Diversification, Compensation Strategy and Firm Performance', *Strategic Management Journal*, vol. 13 (1992), pp. 381–97.

47 Managing for Sustainability box based on A. Woodard and G. Tang, 'The New Green Initiatives HR Needs to Implement Now', *HRM Online*, 21 May 2018.

48 J. D. Shaw, N. Gupta, A. Mitra and G. E. Ledford, Jr, 'Success and Survival of Skill-Based Pay Plans', *Journal of Management*, February 2005, pp. 28–49; C. Lee, K. S. Law and P. Bobko, 'The Importance of Justice Perceptions on Pay Effectiveness: A Two-Year Study of a Skill-Based Pay Plan', *Journal of Management*, vol. 26, no. 6 (1999), pp. 851–73; G. E. Ledford, 'Paying for the Skills, Knowledge and Competencies of Knowledge Workers', *Compensation and Benefits Review*, July–August 1995, pp. 55–62; and E. E. Lawler III, G. E. Ledford, Jr and L. Chang, 'Who Uses Skill-Based Pay and Why?', *Compensation and Benefits Review*, March–April 1993, p. 22.

49 J. D. Shaw, N. Gupta, A. Mitra and G. E. Ledford, Jr, 'Success and Survival of Skill-Based Pay Plans', *Journal of Management*, February 2005, pp. 28–49.

50 'Mandated Benefits: 2002 Compliance Guide', *Employee Benefits Journal*, June 2002, p. 64; and J. J. Kim, 'Smaller Firms Augment Benefits, Survey Shows', *Wall Street Journal*, 6 June 2002, p. D2.

51 P. P. Shah, 'Network Destruction: The Structural Implications of Downsizing', *Academy of Management Journal*, February 2000, pp. 101–12.

52 See, for example, K. A. Mollica and B. Gray, 'When Layoff Survivors Become Layoff Victims: Propensity to Litigate', *Human Resource Planning*, January 2001, pp. 22–32.

53 S. Koudsi, 'You're Stuck', *Fortune*, 10 December 2001, pp. 271–4.

54 S. Berfield, 'After the Layoff, the Redesign', *BusinessWeek*, 14 April 2008, pp. 54–6; L. Uchitelle, 'Retraining Laid-off Workers, But for What?', *New York Times Online*, 26 March 2006; D. Tourish, N. Paulsen, E. Hobman and P. Bordia, 'The Downsides of Downsizing: Communication Processes and Information Needs in the Aftermath of a Workforce Reduction Strategy', *Management Communication Quarterly*, May 2004, pp. 485–516; J. Brockner, G. Spreitzer, A. Mishra, W. Hochwarter, L. Pepper and J. Weinberg, 'Perceived Control as an Antidote to the Negative Effects of Layoffs on Survivors' Organizational Commitment and Job Performance', *Administrative Science Quarterly*, vol. 49 (2004), pp. 76–100; and E. Krell, 'Defusing Downsizing', *Business Finance*, December 2002, pp. 55–7.

55 C. Dougherty, 'A Happy Family of 8000, but for How Long?', *New York Times Online*, 12 July 2009; M. Luo, 'For Small Employers, Shedding Workers and Tears', *New York Times Online*, 7 May 2009; M. Elias, 'Those Doing Layoffs Can Feel the Pain', *USA Today*, 23 April 2009, p. 5D; and M. Cooper, 'Handing out the Pink Slips Can Hurt, Too', *New York Times Online*, 1 February 2009.

56 M. Elias, 'Those Doing the Payoffs Can Feel Lingering Stress', *USA Today*, April 2009.

57 M. Elias, 'Those Doing the Payoffs Can Feel Lingering Stress', *USA Today*, April 2009.

58 A. Joshi, 'Managing the Organizational Melting Pot: Dilemmas of Workplace Diversity', *Administrative Science Quarterly*, December 2001, pp. 783–4.

59 J. Ponte, 'Social Recruitment: 7 Non-traditional Ways for Recruiters to Source Excellent Candidates', *Re-bounty*, 20 June 2017.

60 See, for example, K. Iverson, 'Managing for Effective Workforce Diversity', *Cornell Hotel and Restaurant Administration Quarterly*, April 2000, pp. 31–8.

61 Managing for Diversity and Inclusion box based on S. Robbins, R. Bergman, I. Stagg and M. Coulter, *Management*, 5th edn (Sydney: Pearson, 2010); G. Strachan, E. French and J. Burgess, *Managing Diversity in Australia: Theory and Practice* (Sydney: McGraw-Hill Australia, 2010); N. Beheshti, 'Improve Workplace Culture with a Strong Mentoring Program', *Forbes*, 23 January 2019.

62 K. Conboy and C. Kelly, 'What Evidence Is There That Mentoring Works to Retain and Promote Employees, Especially

Diverse Employees, Within a Single Company?', *Cornell University ILR School, Fall 2016*.

63 B. Leonard, 'Survey: 10% of Employees Report Harassment at Work', *HR Magazine*, October 2010, p. 18.

64 'Survey Shows Workplace Harassment Still Rife', *ABC News*, 31 October 2012.

65 Information from this section taken from Australian Human Rights Commission, 'Sexual Harassment', https://www.humanrights.gov.au/our-work/sex-discrimination/guides/sexual-harassment, accessed 11 October 2017.

66 N. F. Foy, 'Sexual Harassment Can Threaten Your Bottom Line', *Strategic Finance*, August 2000, pp. 56–7.

67 'Federal Monitors Find Illinois Mitsubishi Unit Eradicating Harassment', *Wall Street Journal*, 7 September 2000, p. A8.

68 L. J. Munson, C. Hulin and F. Drasgow, 'Longitudinal Analysis of Dispositional Influences and Sexual Harassment: Effects on Job and Psychological Outcomes', *Personnel Psychology*, Spring 2000, p. 21.

69 G. Alcorn, 'Perverse Outcomes: How Australia Is Failing Sexual Harassment Victims', *The Guardian*, 18 October 2017.

70 Information taken from J. M. Freeman, 'Harassment Training Exercises', www.ehow.com, accessed 17 September 2010.

71 See, for example, P. W. Dorfman, A. T. Cobb and R. Cox, 'Investigations of Sexual Harassment Allegations: Legal Means Fair–Or Does It?', *Human Resources Management*, Spring 2000, pp. 33–9.

Chapter **10** Managing change and innovation

Fact or fiction?

There's not much managers can do to reduce the stress inherent in today's jobs.

Fiction

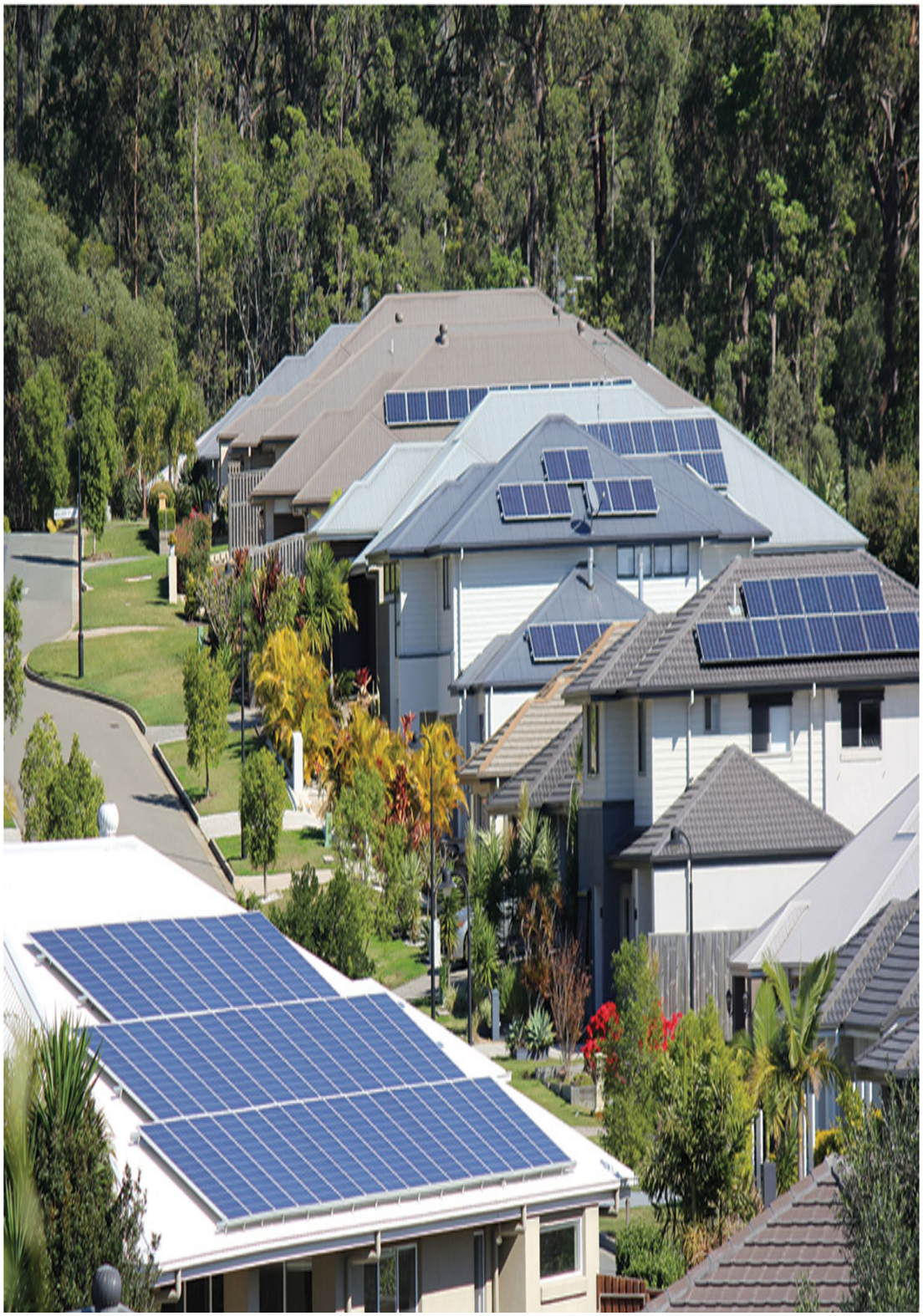
There are numerous causes of stress. Cutbacks, increased workloads, work/life conflicts and 24/7 communication access are just a few of the forces that have increased stress on the job. However, organisations haven't been ignoring this problem. ***While some stressors are outside the reach of management, many are not.*** Astute managers are redesigning jobs, realigning schedules and introducing employee assistance programs to help employees cope with the increasing stresses in their work and in balancing their work and personal lives.

Change is a constant for organisations, and thus for managers and for employees. Large companies, small businesses, entrepreneurial startups, universities, hospitals and even the armed forces are changing the way they do things. Although change has always been part of a manager's job, it's become even more so in recent years. Since change can't be eliminated, managers must learn how to manage it successfully. The opening case about the National Energy Grid highlights why being able to manage change successfully is so important. Stress can be an unfortunate consequence of change and anxiety, both at work and personally. In this chapter, we're going to look at how managers can manage organisational change efforts, workplace stress and innovation in their organisations.

Learning outcomes

10.1 Define organisational change, and compare and contrast views on the change process.
10.2 Explain why change might be unsuccessful.
10.3 Describe what managers need to know about employee stress.
10.4 Discuss techniques for stimulating innovation.

Gridlock



Widespread adoption of solar rooftop panels is one reason why Australia now generates over 30 per cent of its energy from renewable sources.

Kathie Nichols/Shutterstock.com

Australians have been enthusiastic adopters of solar power.[1] By 2019, Australia had ‘the highest uptake of solar of any country in the world’ and over 2.15 million rooftop solar systems. By 2020, renewable energy generated from solar panels and wind turbines was reaching 30 per cent of all energy generation in Australia, and experts were predicting that it would be 40 per cent by 2040.

But these developments have also created some major challenges. Electricity can’t easily be stored once it is generated, so it has to be immediately transmitted to locations where it can be used. In Australia, this occurs through the National Energy grid. The grid was originally designed to support power generation by about 24 coal-fired power stations along the east coast of Australia. But the influx of power generated from renewable sources has created problems for both the grid and the coal-powered generators. As the chief executive of the Clean Energy Council recently put it: ‘The grid is congested, it’s weighed down and it’s not coping

with the rapid change that's occurring across the energy system at the moment.'

Part of the problem is that the supply of energy into the grid and demand for energy from it are both changing. But since 2010, demand for electricity has actually flattened out because people are using power more efficiently or generating their own power from renewable sources. Meanwhile, extreme weather events such as periods of very high temperatures both increase demand for power (to run cooling systems such as air conditioning) and cause more solar power to be generated, creating an influx of energy into the grid. In extreme cases, when this causes a threat of overloading transmission or distribution lines, power companies switch off the power supply to certain areas of groups of customers in order to reduce energy consumption.

These factors each create a need to adjust the energy production of coal-based generators. But coal-based generators can't easily adapt their power generation levels. When less power is needed, coal-powered generators can only be turned down to the baseload amount, which is defined as 'the lowest amount a coal-fired generator can produce before it has to be shut down'. If a generator is turned off, it can take days or even weeks to fire up again, so if the baseload amount is still more than is needed, the generator just produces excess power. Additionally, when production levels are increased or decreased the steel generators expand

and contract. This additional wear and tear could even mean the generators wear out earlier than their anticipated life span.

But which technologies will replace them? Large-scale renewable energy plants take less time and money to build and to run than coal-powered generators, and if energy pricing is adjusted to include carbon pricing, coal-generated power becomes even less viable. However, renewable energy production is intermittent, so backup systems are needed to ensure reliable supplies of electricity. Gas turbines may be part of the solution because their production levels are quickly and easily adjusted. But Australia exports huge amounts of natural gas, resulting in domestic shortages. So, ironically, natural gas is both a potential solution for electricity generation and the reason why energy prices have increased!

What is change, and how do managers deal with it?

Learning outcome 10.1 Define organisational change, and compare and contrast views on the change process.

> If it weren't for change, a **manager's job** would be relatively easy.

Change makes a manager's job more challenging. Without it, managing would be relatively easy. Planning would be easier because tomorrow would be no different from today. The issue of organisational design would be solved because the environment would be free from uncertainty and there would be no need to adapt. Similarly, decision making would be dramatically simplified because the outcome of each alternative could be predicted with near pinpoint accuracy. It would also simplify the manager's job if competitors never introduced new products or services, if customers didn't make new demands, if government regulations were never modified, if technology never advanced or if employees' needs always remained the same. But that's not the way it is.

Change is an organisational reality. Most managers, at one point or another, will have to change some things in their workplace. We call these changes **organisational changes**, which are any alteration

or adaptation of an organisation's structure, technology or people (see **Figure 10.1**). Let's look more closely at each of these.

Figure 10.1 Categories of organisational change

organisational change
Any alteration of an organisation's structure, technology or people

- **Changing structure.** Includes any change in authority relationships, coordination mechanisms, degree of centralisation, job design or similar organisational structure variables. Examples might be restructuring work units, empowering employees, decentralising, widening spans of control, reducing work

specialisation or creating work teams. All of these may involve some type of structural change.

- **Changing technology.** Encompasses modifications in the way work is done or the methods and equipment used. Examples might be computerising work processes and procedures, adding robotics to work areas, equipping employees with mobile communication tools, implementing social media tools or installing a new computer operating system.
- **Changing people.** Refers to changes in employee attitudes, expectations, perceptions or behaviours. Examples might be changing employee attitudes and behaviours to better support a new customer service strategy, using team-building efforts to make a team more innovative, or training employees to adopt a ‘safety-first’ focus.

Why do organisations need to change?

In the chapter on the external organisational environment, we pointed out that both external and internal forces constrain managers. These same forces also bring about the need for change. Let's briefly review these factors.

What external forces create a need for change?

The external forces that create the need for organisational change come from various sources. In recent years, the *marketplace* has affected firms such as Dell, Samsung and Sony because consumers have changed the way they view television programs. With so many programs now available online to download or stream, televisions have been adapted to directly access the internet. *Government laws and regulations* are also an impetus for change. For example, when the Goods and Services Tax was introduced into Australia, businesses had to alter their financial management practices in order to be able to track GST on sales and pay it on to the Australian Taxation Office.

Technology also creates the need for organisational change. The internet has changed the way we get information, how products are sold and how we get our work done. Technological advancements have created significant economies of scale for many organisations. For example, Nike and Adidas use 3D printing to test new design ideas for running shoes, enabling them to develop new products more quickly and cheaply.[2] The assembly line in many industries has also undergone dramatic change as employers replace human labour with technologically advanced mechanical robots. Also, the fluctuation in *labour markets* forces managers to initiate changes. For example, skills shortages are prompting employer associations such as the Victorian Chamber of Commerce and Industry to lobby state and federal governments to raise the average retirement age, increase the workforce participation of disadvantaged groups and boost skilled migration to ensure that organisations can access the labour they need.

As the news headlines remind us, *economic* changes affect almost all organisations. For example, prior to the global financial crisis in 2008, low interest rates led to significant growth in the US and Australian housing markets. This growth meant more jobs, more employees hired, and significant increases in sales in other businesses that supported the building industries. However, when the economy soured, it had the opposite effect as credit markets dried up and businesses found it difficult to get the capital they needed to operate.

Which internal forces create a need to change?

Internal forces can also create the need for organisational change. These internal forces tend to originate primarily from the internal operations of the organisation or from the impact of external changes. (It's also important to recognise that such changes are a normal part of the organisational life cycle.[3])

Evolving technology has created many new marketplaces and business opportunities. Nicole Kersh created Australia's first trade-based ecommerce store at the age of 17 to sell cabling and other IT accessories. Within 10 years her company, 4Cabling, was one of Australia's biggest ecommerce businesses. Kersh now uses the knowledge she gained about how to make websites thrive to help other companies improve their ecommerce strategies and systems.[4]

AFR Picture by Jim Rice/Fairfax

When managers redefine or modify an organisation's *strategy*, that action often introduces a host of changes. For example, Nokia bringing in new equipment is an internal force for change. Because of this action, employees may face job redesign, undergo training to operate the new equipment, or be required to establish new interaction patterns within their work groups. Another internal force for change is that the *composition of an organisation's workforce* changes in terms of age, education, gender, nationality and so on. A stable organisation in which managers have been in their positions for

years might need to restructure jobs in order to retain more ambitious employees by affording them some upward mobility. The compensation and benefits systems might also need to be reworked to reflect the needs of a diverse workforce and market forces in which certain skills are in short supply. *Employee attitudes*, such as increased job dissatisfaction, may lead to increased absenteeism, resignations and even strikes. Such events will, in turn, often lead to changes in organisational policies and practices.

Who initiates organisational change?

> Organisational changes need a **catalyst**.

People who act as catalysts and assume the responsibility for managing the change process are called **change agents**.[5] A change agent could be a manager within the organisation, an internal staff specialist, or an outside consultant whose expertise is in change implementation. For major system-wide changes, an organisation will often hire outside consultants for advice and assistance. Because these consultants come from the outside, they offer an objective perspective that insiders usually lack. However, the problem is that outside consultants may not understand the organisation's history, culture, operating procedures and personnel. They're also prone to initiating more drastic changes than insiders – which can be either a benefit or a disadvantage – because they don't have to live with the repercussions after the change is implemented. In contrast, internal managers who act as change agents may be more thoughtful (and possibly more cautious) because they must live with the consequences of their actions.

change agents

People who act as change catalysts and assume the responsibility for managing the change process

How does organisational change happen?

We often use two metaphors in describing the change process.[6] They represent distinctly different approaches to understanding and responding to change. Let's take a closer look at each one.

What is the 'calm waters' metaphor?

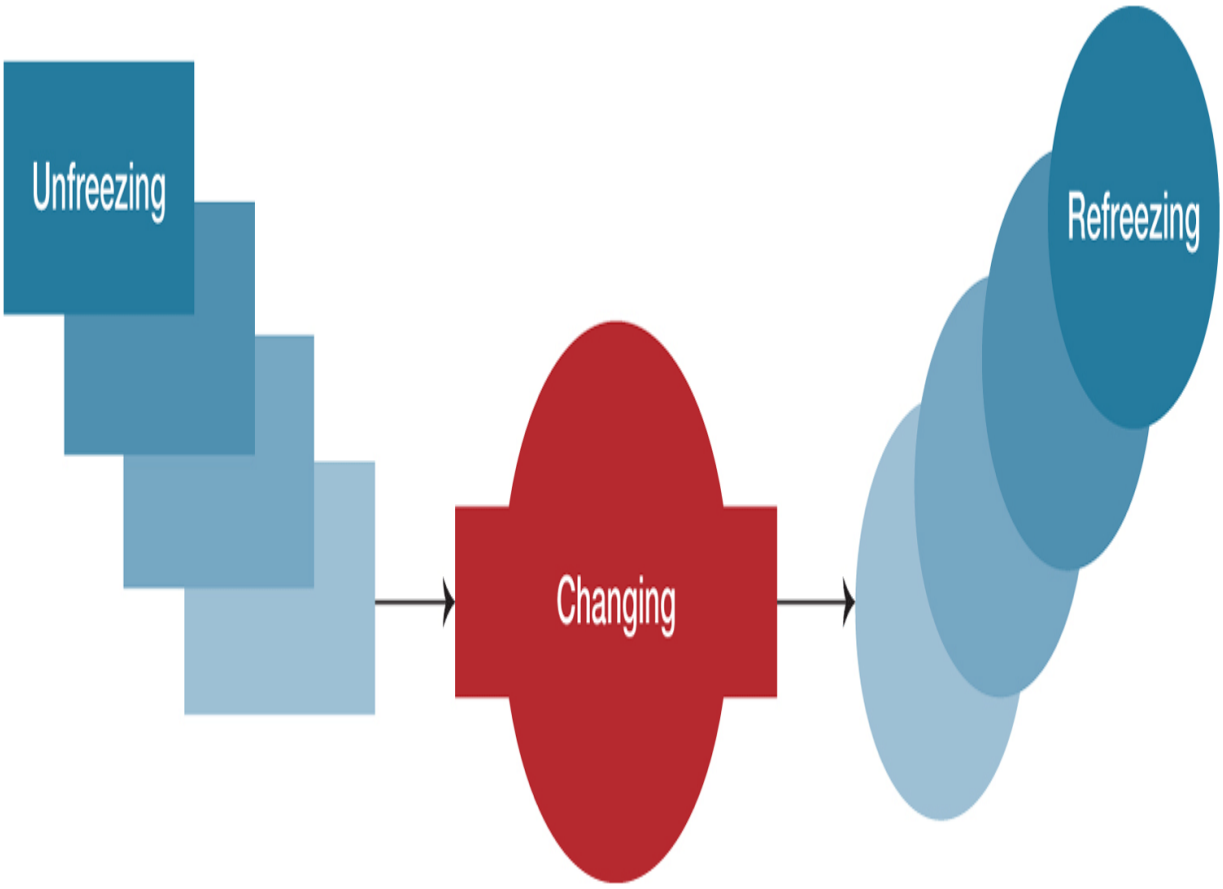
The **'calm waters' metaphor** envisions the organisation as a large ship crossing a calm sea. The ship's captain and crew know exactly where they're going because they've made the trip many times before. Change appears as the occasional storm, a brief distraction in an otherwise calm and predictable trip. Until recently, the 'calm waters' metaphor dominated the thinking of practising managers and academics. The prevailing model for handling change in such circumstances is best illustrated in Kurt Lewin's three-step description of the change process (see **Figure 10.2**).[7]

'calm waters' metaphor

A description of organisational change that likens such change to a large ship making a

predictable trip across a calm sea and experiencing an occasional storm

Figure 10.2 The three-step change process



According to Lewin, successful change requires unfreezing the status quo, changing to a new state and freezing the new change to make it permanent. The status quo can be considered an equilibrium state. Unfreezing is necessary to move from this equilibrium. It can be achieved in one of three ways:

- Increase the driving forces, which direct behaviour away from the status quo.
- Decrease the restraining forces, which hinder movement from the existing equilibrium.
- Do both.

Once the situation has been ‘unfrozen’, the change itself can be implemented. However, just introducing change doesn’t mean it’s going to take hold. The new situation needs to be ‘frozen’ so that it can be sustained over time. Unless this last step is done, the change is likely to be short-lived with employees reverting to the previous equilibrium state. The objective, then, is to freeze at the new equilibrium state and stabilise the new situation by balancing the driving and restraining forces. (See the Classic Concepts in Today’s Organisations box for more information on Lewin and his organisational research.)

Note how Lewin’s three-step process treats change as a break in the organisation’s equilibrium state.[8] The status quo has been disturbed, and change is necessary to establish a new equilibrium state. Although this view might have been appropriate to the relatively calm environment faced by most organisations during the 20th century, it’s now increasingly obsolete as a description of the kinds of ‘seas’ that current managers have to navigate.

Classic concepts in today's organisations: Lewin's ideas have helped us better understand organisational change

Who is Kurt Lewin?

- German-American psychologist, known for his studies of group dynamics.
- Often called the father of modern social psychology (a discipline that uses scientific methods to understand and explain how individuals' thoughts, feelings and behaviours 'are influenced by the actual, imagined or implied presence of other human beings').[10]

What did he do?

- Described group behaviour as an intricate set of symbolic interactions and forces that affect group structure and modify individual behaviour.
- One particular study of how to modify family food habits during World War II provided new and important insights into how best to introduce change.

Major lessons from his work

- Changes are more easily introduced *through group decision making* than through lectures and individual appeals.
- Changes are more readily accepted *when people feel they have an opportunity to be involved in the change* rather than being simply asked or told to change.
- Force field analysis – a framework for *looking at the factors (forces) that influence* a change situation.
  — Forces either *drive* or *block* movement towards a goal.

  — What makes change work, and how can managers overcome resistance? *Increase the driving forces, decrease the blocking forces*, or *both*.

Discuss this

- Explain field force analysis and how it can be used in organisational change.
- If change is constant and continuous for today's organisations, how can managers use Lewin's ideas to help them manage change effectively?

What is the 'white-water rapids' metaphor?

As former chair of Nielsen Media Research (the company best known for its TV ratings, which are frequently used to determine how much advertisers pay for TV commercials), Susan Whiting had to tackle significant industry changes. Video-on-demand services, streaming technologies, smartphones, tablet computers and other changing technologies have made data collection much more challenging for the media research business. Here's what she had to say about the business environment: 'If you look at a typical week I have, it's a combination of trying to lead a company in change in an industry in change.'[9] That's a pretty accurate description of what change is like in our second change metaphor – white-water rapids. It's also consistent with a world that's increasingly dominated by information, ideas and knowledge.[11]

In the **'white-water rapids' metaphor**, the organisation is seen as a small raft navigating a raging river with uninterrupted white-water rapids. Aboard the raft are half a dozen people who have never worked together before, who are totally unfamiliar with the river, who are unsure of their eventual destination and who, as if things weren't bad enough, are travelling at night. In the white-water rapids metaphor, change is the status quo and managing change is a continual process.

'white-water rapids' metaphor

A description of organisational change that likens such change to a small raft navigating

> a raging river

To get a feeling of what managing change might be like in a white-water rapids environment, consider attending a university that had the following rules: Courses vary in length. When you sign up, you don't know how long a course will run. It might go for two weeks or 30 weeks. Furthermore, the instructor can end a course at any time with no prior warning. If that isn't challenging enough, the length of the class changes each time it meets: Sometimes the class lasts 20 minutes; other times it runs for three hours. And the time of the next class meeting is set by the instructor during this class. There's one more thing. All exams are unannounced, so you have to be ready for a test at any time. To succeed in this type of environment, you'd have to respond quickly to changing conditions. Students who were overly structured or uncomfortable with change wouldn't succeed.

Does every manager face a world of constant and chaotic change?

No, but it *is* becoming more the norm. In a 'calm waters' environment, stability and predictability don't exist. Disruptions in the status quo aren't occasional and temporary, and they're not followed by a return to calm waters. Many managers never get out of the rapids. Like Susan Whiting, just described, they face constant forces in the environment (external *and* internal) that bring about the need for planned organisational change.

> Most organisational **changes don't happen** by chance.

How do organisations implement planned changes?

We know that most changes employees experience in an organisation don't happen by chance. Often managers make a concerted effort to alter some aspect of the organisation. Whatever happens – especially in terms of structure or technology – ultimately affects the organisation's people. Efforts to assist organisational members with a planned change are referred to as **organisation development (OD)**.

organisation development (OD)
Efforts that assist organisational members with a planned change by focusing on their attitudes and values

In facilitating long-term, organisation-wide changes, OD focuses on constructively changing the attitudes and values of organisation members so that they can more readily adapt to and be more effective in achieving the new directions of the organisation.[12] When OD efforts are planned, organisation leaders are, in essence, attempting to change the organisation's culture.[13] However, a

fundamental issue of OD is its reliance on employee participation to foster an environment in which open communication and trust exist.[14] Persons involved in OD efforts acknowledge that change can create stress for employees. Therefore, OD attempts to involve organisational members in changes that will affect their jobs and seeks their input about how the change is affecting them (just as Lewin suggested).

Any organisational activity that assists with implementing planned change can be viewed as an OD technique. The more popular OD efforts in organisations rely heavily on group interactions and cooperation and include:

- **Survey feedback**. Employees are asked their attitudes about and perceptions of the change they're encountering. Employees are generally asked to respond to a set of specific questions regarding how they view such organisational aspects as decision making, leadership, communication effectiveness, and satisfaction with their jobs, co-workers and management.[15] The data that a change agent obtains are used to clarify problems that employees may be facing. As a result of this information, the change agent takes some action to remedy the problems.

survey feedback
A method of assessing employees' attitudes towards and perceptions of a

change

- **Process consultation**. Outside consultants help managers to perceive, understand and act on organisational processes they're facing.[16] These elements might include, for example, workflow, informal relationships among unit members and formal communication channels. Consultants give managers insight into what is going on. It's important to recognise that consultants aren't there to solve these problems. Rather, they act as coaches to help managers diagnose the interpersonal processes that need improvement. If managers, with the consultants' help, cannot solve the problem, the consultants will often help managers find experts who can.

process consultation
Using outside consultants to assess organisational processes such as workflow, informal intra-unit relationships and formal communication channels

- **Team building**. In organisations made up of individuals working together to achieve goals, OD helps them to become a team.

How? By helping them set goals, develop positive interpersonal relationships, and clarify the roles and responsibilities of each team member. It's not always necessary to address each area because the group may be in agreement and understand what's expected. The *primary* focus of team building is to increase members' trust and openness towards one another.[17]

> ***team building***
>
> Using activities to help work groups set goals, develop positive interpersonal relationships, and clarify the roles and responsibilities of each team member

- **Intergroup development**. Different groups focus on becoming more cohesive. That is, intergroup development attempts to change attitudes, stereotypes and perceptions that one group may have towards another group. The goal? Better coordination among the various groups.

> ***intergroup development***
>
> Activities that attempt to make several work groups more cohesive

Reasons why change fails

Learning outcome 10.2 Explain why change might be unsuccessful.

Change isn't easy for any organisation and many change efforts are unsuccessful. Sometimes, people resist change because they find it disruptive and scary. Other times, changes are made but don't stick and people revert to their old ways. In this section, we examine these barriers to successful change and the strategies that managers can use to overcome them.

Resistance to change is well documented.[18] The main reasons for it include failure to see the need for change, uncertainty about adopting new methods, concern over personal loss, the belief that the change isn't in the organisation's best interest and a limited tolerance for change.[19]

> People resist change even if **it might be beneficial**!

People resist change when they don't see the need for it and believe it is unnecessary. This belief may be the result of powerful mental maps, simplistic views of the past, present and future, or an instinctive desire to maintain equilibrium.[20] **Mental maps** are cognitive maps or images about how the world operates, which people use to make sense of their environment and act within it. Mental maps create habitual patterns for thinking about and behaving in certain situations. Maps become powerful when they produce

positive consequences and work well over a long time. Powerful maps reinforce existing world views, preventing people from seeing the need to do things differently. Simplistic views of the past, present and future prevent people from seeing the need for change by leading them to assume that actions and perspectives that have worked before will also work now and into the future. They don't see any differences between past situations, current circumstances and future scenarios, so they apply existing approaches and assume that these will keep being successful. People may also fail to see the need for change, or push back against change, because they have an instinctive desire to maintain equilibrium. Consequently, forces for change can cause people to strengthen their commitment to existing ways of doing things.

mental maps

Cognitive maps or images about how the world operates

People also resist change when they are uncertain about adopting new methods. This may be uncertainty about the requirements of change, the change itself or the outcomes of the change.[21] Uncertainty about the requirements of change means that people are uncertain that they have the skills, knowledge, tools or ability to make the change. Uncertainty about the change itself relates to uncertainty

about how they should now behave. Uncertainty about the outcomes of the change refers to uncertainty about the results that the change will produce. If people don't believe they can change, lack a clear alternative course of action or are unsure of what will happen if they adopt changes, they will keep doing what they know even if they know it's flawed.

Resistance may also be based on the fear of losing something already possessed. Change threatens the investment that people have already made in the status quo. The more they have invested in the current system, the more they resist change. They fear losing status, money, authority, friendships, personal convenience or other benefits that they value. This helps explain why older workers tend to resist change more than younger workers, since they generally have more invested in the current system and more to lose by changing.

People may also resist change when they believe that the change is incompatible with the goals and interests of the organisation. This may be because they are assessing the situation differently than those around them, or because they are using different information.[22] This type of resistance can actually be beneficial to the organisation if expressed in a positive way and if it brings up new issues for consideration.

A final cause of resistance is people's limited tolerance for change.[23] People can only change so much. Organisations sometimes require more change than people can make. They may be unable to alter their behaviour to the extent that is required, or they may be 'burned

out' from previous change efforts. For this reason, organisations need to carefully manage the amount of change they introduce so as to ensure they don't exceed people's limits.

Even when people see the need for change and successfully alter their behaviour, the change process may still fail if they revert to their old ways. Research shows that people return to past habits when new methods fail to produce instant, positive consequences.[24] This may occur because a new approach takes a while to master and doesn't immediately produce positive results. It may also be because the process of mastering a new approach can make people feel lost and unsure about whether they are improving. If they are uncertain about whether the effort they are investing in the change is working, they will give up. When changes fail to produce immediate results, the past positive consequences of old behaviours outweigh the pressure to use new ones and people revert to their previous habits.

What are some techniques for overcoming barriers to organisational change?

To overcome barriers to successful change, managers can choose from a range of tactics summarised here and described in **Table 10.1**. Managers should view these techniques as tools and use one(s) most appropriate for the type and source of the barrier. These approaches include education and communication, participation, facilitation and support, negotiation, manipulation and cooptation, and coercion.

Table 10.1 Techniques for overcoming barriers to change

- *Education and communication* can overcome barriers to change by helping employees see the logic of the change effort. This technique can be used to overcome resistance caused by misinformation or poor communication, and to discourage reversion to old ways.
- *Participation* involves bringing those individuals directly affected by the proposed change into the decision-making process. Their participation allows these individuals to express their feelings, increase the quality of the process and increase employee commitment to the final decision.

- *Facilitation and support* involve helping employees deal with the fear and anxiety associated with the change effort. This help may include employee counselling, therapy, new skills training or a short paid leave of absence.
- *Negotiation* involves exchanging something of value for an agreement to lessen the resistance to the change effort. This technique may be quite useful when the resistance comes from a powerful source.
- *Manipulation and cooptation* refers to covert attempts to influence others about the change. It may involve twisting or distorting facts to make the change appear more attractive.
- *Coercion* can be used to deal with resistance to change. Coercion involves the use of direct threats or force against the resisters.

What reaction do employees have to organisational change?

> Learning outcome 10.3 Describe what managers need to know about employee stress.

For many employees, change creates stress. A dynamic and uncertain environment characterised by restructurings, downsizings, empowerment and personal life matters has caused large numbers of employees to feel overworked and ‘stressed out’. In this section, we’ll review specifically what is meant by the term *stress*, what the symptoms of stress are, what causes stress and what managers can do to reduce anxiety.

What is stress?

Stress is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints or opportunities.[25] When people face extraordinary demands, constraints or opportunities, they experience positive stress (known as eustress) or negative stress (known as distress).[26] Eustress is functional stress that motivates action; people experience functional stress when they perceive that new circumstances represent a positive change that offers a potential gain. For example, functional stress allows an athlete, stage performer or employee to perform at their highest level at crucial times. However, when people perceive that new circumstances will impose high demands, reduce their control over their environment or lead to undesirable outcomes, then they experience distress, which is dysfunctional stress. It's this negative response to stress that we'll focus on for the rest of our discussion because, as we explain below, this form of stress can have a wide range of negative consequences for individuals and organisations. Too much stress can even have tragic consequences. In Japan, there's a stress phenomenon called ***karoshi*** (pronounced kah-roe-she), which translates as 'death from overwork'.

stress

The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints or opportunities

karoshi

A Japanese term for sudden death caused by overworking

One other thing to understand about stress is that just because the conditions are right for stress to surface doesn't always mean it will. Two conditions are necessary for *potential* stress to become *actual* stress:[27] there must be uncertainty over the outcome; and the outcome must be important.

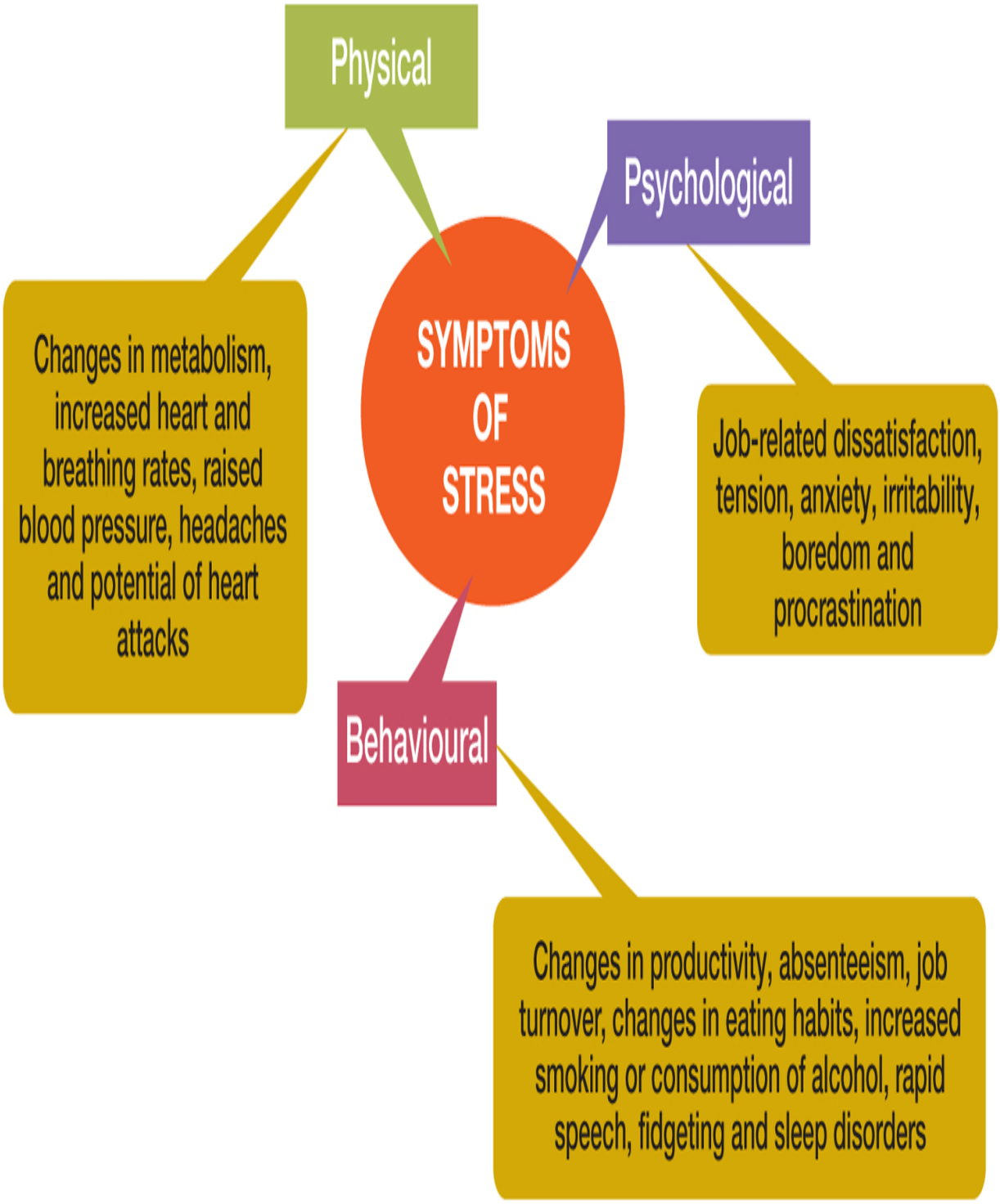
In the workplace, stress is often associated with high job strain. High job strain results from a combination of high job demands and low control over how the job is done. Organisational change increases job strain when it means that employees are required to do more but reduces their control over how they deal with those extra demands. For example, if an employee is given extra responsibilities but no extra resources or assistance to deal with those responsibilities, they will experience high job strain. High job strain has been shown to be

harmful to cardiovascular and mental health, and has even been shown to increase the risks of mental health issues such as depression and anxiety.[28] So, understanding how organisational changes increase job strain and cause employee stress is critical to managing change successfully.

What are the symptoms of stress?

We see stress in a number of ways. For example, an employee who is experiencing high stress may become depressed, accident prone or argumentative; may have difficulty making routine decisions; may be easily distracted, and so on. As **Figure 10.3** shows, stress symptoms can be grouped under three general categories: physical, psychological and behavioural. All of these can significantly affect an employee's work.

Figure 10.3 Symptoms of stress


Physical
Psychological
SYMPTOMS OF STRESS
Changes in metabolism, increased heart and breathing rates, raised blood pressure, headaches and potential of heart attacks
Job-related dissatisfaction, tension, anxiety, irritability, boredom and procrastination
Behavioural
Changes in productivity, absenteeism, job turnover, changes in eating habits, increased smoking or consumption of alcohol, rapid speech, fidgeting and sleep disorders

What causes stress?

Stress can be caused by personal and job-related factors called **stressors**. Job-related stressors can include pressures to avoid errors or to complete tasks in a limited time period, job insecurity, bullying, organisational injustice and a lack of social support at work.[29] Let's look at five categories of organisational stressors: task, role and interpersonal demands; organisation structure; and organisational leadership.

stressors
Factors that cause stress

Task demands are factors related to an employee's job. They include the design of a job (autonomy, task variety, degree of automation), working conditions and the physical work layout. Work quotas can put pressure on employees when their 'outcomes' are perceived as excessive.[30] The more interdependence between an employee's tasks and the tasks of others, the more potential stress there is. *Autonomy*, on the other hand, tends to lessen stress as people perceive that they have more control over their situation. Just as jobs

in which temperatures, noise or other working conditions are dangerous or undesirable can increase anxiety, so too can working in an overcrowded room or in a visible location where interruptions are constant.

Role demands relate to pressures placed on an employee as a function of the particular role they play in the organisation. **Role ambiguity** is created when role expectations aren't clearly understood and the employee isn't sure what they are to do. **Role conflicts** create expectations that may be hard to reconcile or satisfy. **Role overload** is experienced when the employee is expected to do more than time permits. The following example illustrates the distinctions between these three concepts. Jingjing is a customer service officer in a call centre. During her training she learnt that she is expected to be a one-stop shop for customer problems but also to make sure she spends no more than five minutes handling any one call. Jingjing's uncertainty about how to be a 'one-stop shop' is an example of role ambiguity. The conflicting demands to resolve customer problems and take five minutes or less to do so illustrate role conflict. The pressure of resolving customer problems in less than five minutes creates role overload.

role ambiguity

When role expectations aren't clearly understood

role conflicts

Work expectations that are hard to satisfy

role overload

Having more work to accomplish than time permits

- *Interpersonal demands* are pressures created by other employees. Lack of social support from colleagues and poor interpersonal relationships can cause considerable stress, especially among employees with a high social need.
- *Organisational structure* can increase stress. Excessive rules and an employee's lack of opportunity to participate in decisions that affect them are examples of structural variables that might be potential sources of stress.
- *Organisational leadership* represents the supervisory style of the organisation's managers. Some managers create a culture characterised by tension, fear and anxiety. They establish unrealistic pressures to perform in the short run, impose excessively tight controls and routinely fire employees who don't measure up. This style of leadership flows down through the organisation and affects all employees.

Personal factors that can create stress include family issues, personal economic problems and inherent personality characteristics. Because employees bring their personal problems to work with them, a full understanding of employee stress requires a manager to be understanding of these personal factors.[31] Evidence also indicates that employees' personalities have an effect on how susceptible they are to stress. The most commonly used labels for these personality traits are Type A and Type B.

Type A personality is characterised by chronic feelings of a sense of time urgency, an excessive competitive drive, and difficulty accepting and enjoying leisure time. The opposite of Type A is **Type B personality**. Type Bs never suffer from time urgency or impatience. Both personality types are susceptible to stressors, but Type A personalities are more likely to demonstrate symptoms of stress. That makes it important for managers not to assume that Type B employees aren't stressed or are less stressed than Type A employees.

Type A personality

People who have a chronic sense of urgency and an excessive competitive drive

Type B personality

People who are relaxed and easygoing and accept change easily

How can stress be reduced?

As mentioned earlier, stress can be functional when it motivates employees. But exposure to job stressors can also lead to burnout, anxiety disorders, dependence on alcohol and even suicide.[32] In Australia, workplace health and safety legislation (see the chapter on managing human resources) specifies that employers and managers have a legal responsibility to provide employees with a safe working environment, which includes an environment in which they are safe from stress-related and/or psychological injuries. Employers are also responsible for paying worker's compensation for stress-related injuries. (In 2014–15, 91 per cent of worker's compensation claims involving mental health conditions were related to workplace stress.[33]) So, you can see why it's so important that managers understand how stress affects employees and how to reduce job stressors!

Managers want to reduce the stress that leads to dysfunctional work behaviour by controlling certain organisational stressors and, to a more limited extent, offering help for personal stress. Studies have shown that the most effective way that managers can prevent stress and its negative impacts is to take an integrated approach and focus on reducing job stressors while also improving employees' resilience and ability to cope with stress.[34]

Things that managers can do in terms of job-related factors begin with employee selection. Managers need to ensure that an employee's abilities match the requirements of their job. When employees are in over their heads, their stress levels typically will be high. A realistic job preview during the selection process can minimise stress by reducing ambiguity over job expectations. Improved organisational communications will keep ambiguity-induced stress to a minimum. Similarly, a performance planning program such as management by objectives (MBO) will clarify job responsibilities, provide clear performance goals and reduce ambiguity through feedback. Job redesign is also a way to reduce stress. If stress can be traced to boredom or to work overload, jobs should be redesigned to increase challenge or to reduce the workload. Redesigns that increase opportunities for employees to participate in decisions and to gain social support also have been found to lessen stress.[35] For example, at UK pharmaceutical maker GlaxoSmithKline, a team-resilience program in which employees can shift assignments depending on their workloads and deadlines has helped reduce work-related stress by 60 per cent.[36]

Task demands make commercial pilots' jobs very stressful. Pilots like Captain Natalia Weiss, of Brazilian Airline GOL, are responsible for the lives of their passengers and crews every time they fly. In the event of an emergency, pilots must handle unexpected and rapidly changing situations ranging from poor weather conditions to equipment malfunctions.

Rahel Patrasso/Reuters/Newscom

No matter what you do to eliminate organisational stressors, some employees will still be ‘stressed out’ due to personal stressors. Stress from an employee’s personal life raises two problems. First, it’s difficult for the manager to control directly. Second, there are ethical considerations as to whether managers have the right to intrude – even in the most subtle ways – in an employee’s personal life. If a manager believes it’s ethical and the employee is receptive, there are a few approaches the manager can consider.

To help deal with these issues, many companies offer employee assistance and **wellness programs**.[37] These employer-sponsored programs are designed to assist employees in areas where they might be having difficulties, such as financial planning, legal matters, health, fitness or stress.[38]

wellness programs

Programs offered by organisations to help employees prevent health problems

Employee assistance programs (EAPs) are work-based programs designed to detect, identify and help resolve work and personal problems that affect employee wellbeing and performance.[39] Programs usually offer counselling services to employees, but may also include mediation and training, and are

often also made available to employee family members. Many EAPs focus on assisting employees with personal issues, and some also address work-related trauma or stress. For example, ANZ Bank's EAP includes trauma counselling for employees who are victims of armed hold-ups. The return on investment in EAPs can include greater job satisfaction, higher morale and a reputation as a good employer, as well as reductions in sick and stress leave, fewer or less-costly compensation claims and less absenteeism. Research on the usage of EAPs in Australia found that the improvements to employee productivity that result from accessing an EAP equated to an average return on investment of over $10,000 per employee.[40]

employee assistance programs (EAPs)
Programs offered by organisations to help employees overcome personal and health-related problems

A question of ethics: Suffering in silence

One in five companies offers some form of stress management program.[41] Although such programs are available, many employees may choose not to participate. They may be reluctant to ask for help, especially if a major source of that stress is job insecurity. After all, there's still a stigma associated with stress. Employees don't want to be perceived as being unable to handle the demands of their job. Although they may need stress management now more than ever, few employees want to admit that they're stressed. What can be done about this paradox?

Discuss this

- What is the ethical dilemma here? What problems do organisations face if employees need help but don't ask for it?
- What options do organisations have in this situation?

How can managers encourage innovation in an organisation?

Learning outcome 10.4 Discuss techniques for stimulating innovation.

As we explained in the chapter entitled ‘Managers and Management’, it is critically important that managers understand what innovation is and how to foster innovative behaviour in themselves and their employees. In this section, we’ll explain how managers can achieve that by stimulating creativity and by using the organisation’s structure, culture and human resource management to help employees convert creative ideas into innovative products, services and processes.

How are creativity and innovation related?

Creativity refers to the ability to combine ideas in a unique way or to make unusual associations between ideas.[42] A creative organisation develops unique ways of working, or novel solutions to problems. But creativity by itself isn't enough. The outcomes of the creative process need to be turned into useful products or work methods, which is defined as **innovation**. Thus, the innovative organisation is characterised by its ability to channel creativity into useful outcomes. When managers talk about changing an organisation to make it more creative, they usually mean they want to stimulate and nurture innovation.

creativity
: The ability to produce novel and useful ideas

innovation

The process of taking a creative idea and turning it into a useful product, service or method of operation

How can organisations stimulate creativity?

Not surprisingly, exceptional creativity is scarce. A study of lifetime creativity of 461 men and women found that fewer than 1 per cent were exceptionally creative. But 10 per cent were highly creative and about 60 per cent were somewhat creative. These findings suggest that most of us have creative potential, if we can learn to unleash it.

Given that most people have the capacity to be at least moderately creative, what can managers do to stimulate employee creativity? The best answer to this question lies in the three-component model of creativity, which is based on an extensive body of research.[43] The model proposes that individual creativity essentially requires expertise, creative-thinking skills and intrinsic task motivation. Studies confirm that the higher the level of each of these three components, the higher the creativity.

Expertise is the foundation of all creative work. Dali's understanding of art and Einstein's knowledge of physics were necessary conditions for them to be able to make creative contributions to their fields. You wouldn't expect someone with a minimal knowledge of programming to be highly creative as a software engineer. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies and similar expertise in their fields of endeavour.

Innovations are often inspired by an unsolved problem or an unmet need. When Trish and Phil Chapallaz were planning a caravan trip around Australia, they went searching for a solar power system they could use to generate their own electricity.[44] When they realised no one actually made what they were looking for, they decided to make it themselves. Today's Solar 4 RVs produces thin, flexible and lightweight portable solar power systems for caravans, camper trailers, and boats.

Solar 4 RVs

The second component, *creative-thinking skills*, encompasses personality characteristics associated with creativity, the ability to use analogies, as well as the talent to see the familiar in a different light. For example, the following individual traits have been found to be associated with the development of creative ideas: intelligence, independence, self-confidence, risk taking, internal locus of control, tolerance for ambiguity, and perseverance in the face of frustration.

The final component in our model is *intrinsic task motivation* – the desire to work on something because it's interesting, involving, exciting, satisfying or personally challenging. This motivational component is what turns creative *potential* into *actual* creative ideas. It determines the extent to which individuals fully engage their expertise and creative skills. So, creative people often love their work, to the point of seeming obsessed. Importantly, an individual's work environment and the organisation's culture (which we discussed in the chapter on how organisations operate) can have a significant

effect on intrinsic motivation. Specifically, five organisational factors have been found that can impede your creativity: (1) expected evaluation – focusing on how your work is going to be evaluated; (2) surveillance – being watched while you're working; (3) external motivators – emphasising external, tangible rewards; (4) competition – facing win–lose situations with your peers; and (5) constrained choices – being given limits on how you can do your work.

Managing for sustainability: Self-sustaining agriculture

Managing for sustainability often involves doing old things in creative new ways. By thinking creatively, Sundrop Farms has developed an innovative way to grow food without soil which is socially, environmentally and financially sustainable.[45] Sundrop Farms uses a system of hydroponic greenhouses powered by solar- and steam-generated energy that is almost completely self-sustaining. Seawater from underground reserves is pumped into the greenhouse system. Solar energy is used to heat an oil-filled pipeline and then the solar-heated oil is used to heat the seawater to 160 degrees Celsius. The steam turns turbines that generate electricity, and the heated seawater is then passed through a desalination plant that removes the salt and produces 10,000 litres of freshwater per day. The salt and nutrients removed during the desalination process are used to fertilise the crops. The freshwater is then pumped through the hydroponic systems in which the plants grow and through evaporative cooling systems to keep the greenhouses humid and cool. This means the water can then be recirculated through the system.

The company’s original dream to have the system entirely self-generating had to be compromised to ensure the business could be financially sustainable. It now uses gas boilers to maintain consistent growing temperatures through cold and cloudy days because, as Philipp Saumweber, the CEO, explains: ‘You can grow anything without heating and cooling, but it will be blemished and misshapen and will be rejected by the supermarkets. If you don’t match their standards, you don’t get paid!’

By minimising its environmental footprint and maximising system efficiency, the Sundrop Farms greenhouse system saves the equivalent of 4.6 million barrels of oil and 280 million litres of freshwater every year compared to a standard greenhouse operating in a similar location. It also generates 15–30 times more produce per hectare than can be achieved by growing crops in a field. Moreover, as greenhouse systems can be used to grow food in areas that lack freshwater, fertile pastureland or a suitable climate, the Sundrop Farms system could also help to make communities in such locations more socially, environmentally and financially sustainable.

What's involved in turning creativity into innovation?

Some people believe that creativity is inborn; others believe that with training, anyone can be creative. The latter group views creativity as a four-part process.[46]

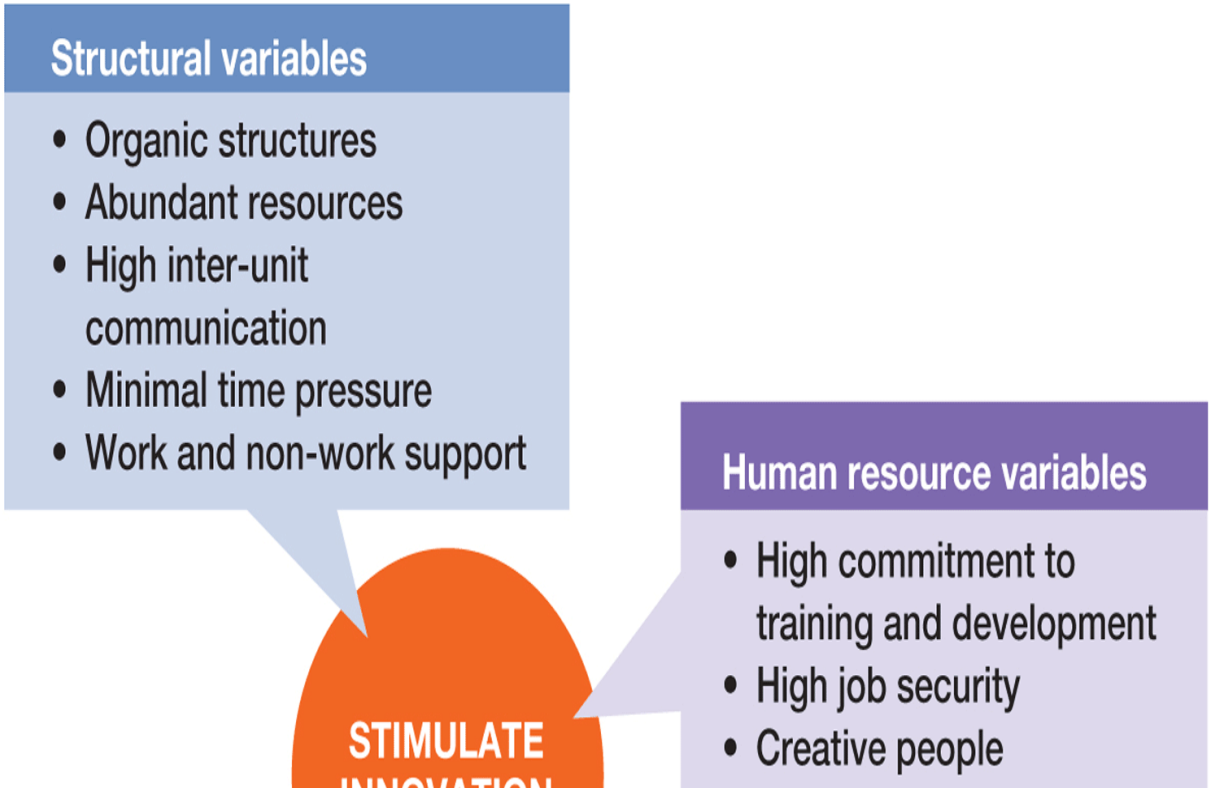
1. *Perception* involves the way you see things. Being creative means seeing things from a unique perspective. One person may see solutions to a problem that others cannot or won't see at all. The movement from perception to reality, however, doesn't occur instantaneously.
2. Instead, ideas go through a process of *incubation*. Sometimes employees need to sit with their ideas and let them develop. During this incubation period, employees should collect massive amounts of data that are stored, retrieved, studied, reshaped and, finally, moulded into something new. This may take years!
3. *Inspiration* in the creative process is the moment when all your efforts successfully come together. Think for a moment about a time you struggled with a problem and nothing worked. Then suddenly, like a flash of light, a solution popped into your head. That moment of inspiration can lead to euphoria, but the creative work isn't complete quite yet. It requires an innovative effort.

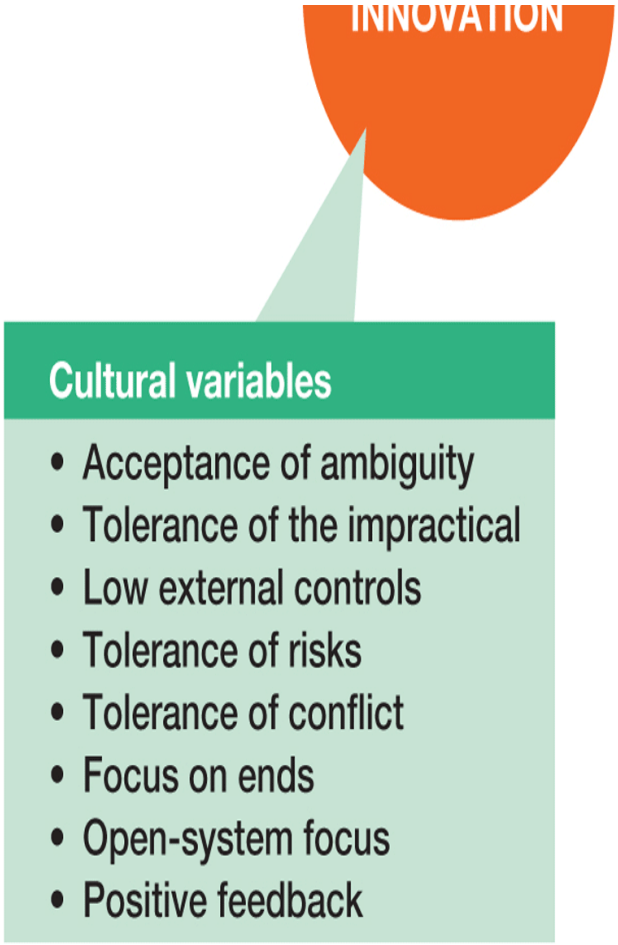
4. *Innovation* involves taking that inspiration and turning it into a useful product, service or way of doing things. Thomas Edison is often credited with saying, ‘Creativity is 1 per cent inspiration and 99 per cent perspiration.’ That 99 per cent involves testing, evaluating and retesting what the inspiration found. It’s usually at this stage that an individual involves others more in what they have been working on. Such involvement is critical, because even the greatest invention may be delayed, or lost, if an individual cannot effectively deal with others in communicating and achieving what the creative idea is supposed to do.

How can a manager foster innovation?

The systems model we explored in the chapter on how organisations operate can help us understand how organisations become more innovative.[47] If an organisation wants innovative products and work methods, it has to create the right environment to transform creative ideas into outputs. This 'right' environment includes three variables: the organisation's structure, culture and HR practices (see **Figure 10.4**).

Figure 10.4 Innovation variables





How do structural variables affect innovation?

Research shows five main effects of structural variables on innovation.[48]

- An organic-type structure positively influences innovation. Because this structure is low in formalisation, centralisation and work specialisation, it facilitates the flexibility and sharing of ideas that are critical to innovation.

- The availability of plentiful resources provides a key building block for innovation. With an abundance of resources, managers can afford to purchase and institute innovations, and can absorb failures.
- Frequent communication between organisational units helps break down barriers to innovation.[49] Cross-functional teams, task forces and other such organisational designs facilitate interaction across departmental lines and are widely used in innovative organisations.
- Extreme time pressures on creative activities are minimised despite the demands of fast-paced environments. Although time pressures may spur people to work harder and may make them feel more creative, studies show that it actually causes them to be less creative.[50]
- When an organisation's structure explicitly supports creativity, employees' creative performance can be enhanced. Beneficial kinds of support include encouragement, open communication, readiness to listen and useful feedback.[51]

How does an organisation's culture affect innovation?

Innovative organisations tend to have similar cultures.[52] They encourage experimentation, reward both successes and failures, and celebrate mistakes. An innovative organisation is likely to have the following characteristics.

- **Accepts ambiguity.** Too much emphasis on objectivity and specificity constrains creativity.
- **Tolerates the impractical.** Individuals who offer impractical, even foolish, answers to what-if questions aren't stifled. What at first seems impractical might lead to innovative solutions.
- **Keeps external controls minimal.** Rules, regulations, policies and similar organisational controls are kept to a minimum.
- **Tolerates risk.** Employees are encouraged to experiment without fear of consequences should they fail. Mistakes are treated as learning opportunities.
- **Tolerates conflict.** Diversity of opinions is encouraged. Harmony and agreement between individuals or units are *not* assumed to be evidence of high performance.
- **Focuses on ends rather than means.** Goals are made clear, and individuals are encouraged to consider alternative routes towards meeting the goals. Focusing on ends suggests that there might be several right answers to any given problem.
- **Uses an open-system focus.** Managers closely monitor the environment and respond to changes as they occur. For example, at Starbucks, product development depends on 'inspiration field trips to view customers and trends'. When Michelle Gass (currently, Kohl Corporation's chief customer officer) was in charge of Starbucks' marketing, she 'took her team to Paris, Düsseldorf and London to visit local Starbucks and other restaurants to get a better sense of local cultures, behaviours and fashions'. She says, 'You come back just full of different ideas and different ways to think about things than you would had you read about it in a magazine or email.'[53]

- **Provides positive feedback.** Managers provide positive feedback, encouragement and support, so employees feel that their creative ideas receive attention.

Managing for diversity and inclusion: Listening to everyone

Creativity and innovation both involve embracing new and different possibilities. But as we have discussed in this chapter, sometimes people need a little extra reassurance that *everyone's* ideas are valued and welcomed. Zinc, an Australian marketing agency, does this by fostering curiosity and communication.[54] Zinc's company culture is founded on trust, openness and authenticity, so that 'team members are the same people they are at work as they are on the weekend'. To encourage open communication, the company uses an online idea generation platform, Spark, where everyone in the business can post and comment on ideas about the business and its clients. A dedicated team at Zinc then evaluates the posts on Spark to find the best ideas and help develop and implement them. Three nights a week the company also hosts 'We're here for you' sessions, in which any employee with ideas, issues or suggestions can discuss them directly with the leadership team. The payoff for the company is a workforce that feels engaged and appreciated. Zinc's retention rate is 93 per cent and it consistently ranks as one of the 'greatest places to work in Australia'.

Which human resource variables affect innovation?

In this category, we find that innovative organisations: (1) actively promote the training and development of their members so their knowledge remains current; (2) offer their employees high job security to reduce the fear of being fired for making mistakes; and (3) encourage individuals to become **idea champions**, actively and enthusiastically supporting new ideas, building support for and overcoming resistance to innovations, and ensuring that they are implemented. Research finds that idea champions have common personality characteristics: extremely high self-confidence, persistence, energy and a tendency towards risk taking. They also display characteristics associated with dynamic leadership. They inspire and energise others with their vision of the potential of an innovation and through their strong personal conviction in their mission. They're also good at gaining the commitment of others to support their mission. In addition, idea champions have jobs that provide considerable decision-making discretion. This autonomy helps them introduce and implement innovations in organisations.[55] For example, Chantelle Masci, business manager at Masci Hair and Spa, has developed an organisational culture in which all staff are focused on continuously developing new innovations to 'delight and surprise' their clients.[56] These range from big innovations like the 'Know Your Client' training every staff member undertakes to deliver highly individualised service to customers, including small touches such as

escorting customers to their cars with an umbrella on rainy days so that their newly styled hair isn’t ruined by the rain.

Google encourages employee innovation with its ‘20% Time’ initiative.[57] Employees are encouraged to spend 20 per cent of their time at work to experiment with new ideas for company-related projects. It’s paid off: emloyees using their 20% Time came up with the autocomplete system, Google News, Gmail and Adsense.

MariaX/Shutterstock.com

idea champions

Individuals who actively and enthusiastically support new ideas, build support for and overcome resistance to innovations, and ensure that they are implemented

How does design thinking influence innovation?

Undoubtedly, there's a strong connection between design thinking and innovation. It's been said that 'design thinking can do for innovation what TQM did for quality'.[58] Just as total quality management provides a process for improving quality throughout an organisation, design thinking can provide a process for coming up with things that don't yet exist. When a business approaches innovation with a design thinking mentality, the emphasis is on getting a deeper understanding of what customers need and want. It entails knowing customers as real people with real problems – not just as sales targets or demographic statistics. But it also entails being able to convert those customer insights into real and usable products. For example, when Commonwealth Bank of Australia (CBA) realised that many Australians were frustrated with the process of buying a home, they looked deeper and found this was often because people couldn't understand what they could actually afford to buy. So, CBA developed the CommBank Property app to help buyers 'move into the home they love, knowing they can afford it'.[59] Like many property-related apps, it provides information about the property market in general and details about the likely sale price of specific properties. However, the CommBank app links this information to financial position, so buyers can search for properties and determine how to afford a particular one (e.g. by using the savings calculator). It also

integrates information about the various factors that influence affordability, such as property values, upfront costs of purchasing a home and lenders' mortgage insurance, so buyers can calculate how these factors will affect their financial position. The app even lets buyers apply for conditional eligibility for a loan so they know whether they are actually able to get the mortgage they would need to buy the property. In the first year after it was launched, the app had attracted over 350,000 visits. That's how design thinking works in innovation.

Rethinking management in a global crisis: New challenges, new insights, new capabilities

Albert Einsten famously said that ‘in the midst of every crisis lies great opportunity’. The crises produced by the COVID-19 pandemic created many forms of change. Some fostered creative and innovative responses. For instance, LVMH, the company that owns the Louis Vuitton brand, repurposed its 19 perfume factories in France to manufacture hand sanitiser, which it then donated to French hospitals.[60] Others fostered new realisations about how rapidly change could occur, and how quickly change responses could be developed and implemented when they really had to be!

Some of those experiences produced positive realisations that both people and organisations were stronger, more resilient, more flexible and more adaptable than had been previously realised. Others produced new understandings of change fatigue and the limits of endurance. The pandemic generated stressors and levels of stress many individuals had never experienced before, and the consequences for stress-related mental illness are evidenced by increased demand on mental health support services. But these developments have also helped to change attitudes about stress and mental health issues, and to foster positive attention towards the

many ways in which mental health can be supported. For example, while traumatic events can produce post-traumatic stress, they can also produce post-traumatic growth, which is defined as ‘the transformative positive change that can occur as a result of a struggle with great adversity’.[61] Through strategies such as supportive storytelling, individuals can express the grief and loss they experienced during the pandemic, and explore the meaning and effect it has had for them, which helps them to resolve the trauma and feel a greater sense of purpose, and more compassion for and connection to others.

Review

Chapter 10 summary

10.1 Define organisational change, and compare and contrast views on the change process.

Organisational change is any alteration of an organisation's people, structure or technology. The 'calm waters' metaphor of change suggests that change is an occasional disruption in the normal flow of events and can be planned for and managed as it happens, using Lewin's three-step change process (unfreezing, changing and freezing). The 'white-water rapids' view of change suggests that change is ongoing, and managing it is a continual process.

10.2 Explain why change might be unsuccessful.

Change efforts may be unsuccessful either because people resist change or because changes don't become permanent. Resistance to change can be caused by a failure to see the need for change, uncertainty about adopting new methods, concern over personal loss, the belief that the change isn't in the organisation's best interest and a limited tolerance for change. Reverting to old ways prevents changes from becoming permanent, and usually occurs because new methods fail to produce instant, positive consequences. Techniques for overcoming barriers to change include education and communication (educating employees about and communicating to them the need for the change), participation (allowing employees to participate in the change process), facilitation and support (giving employees the support they need to

implement the change), negotiation (exchanging something of value to reduce resistance), manipulation and cooptation (using negative actions to influence), selecting people who are open to and accept change, and coercion (using direct threats or force).

10.3 Describe what managers need to know about employee stress.

Stress is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints or opportunities. The symptoms of stress can be physical, psychological or behavioural. Stress can be caused by personal factors and by job-related factors. To help employees deal with stress, managers can address job-related factors by ensuring that an employee's abilities match the requirements of their job, improving organisational communications, using a performance planning program or redesigning jobs. Addressing personal stress factors is trickier, but managers could offer employee counselling, time management programs and wellness programs.

10.4 Discuss techniques for stimulating innovation.

Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Innovation is turning the outcomes of the creative process into useful products or work methods. An innovative environment encompasses structural, cultural and human resource variables.

Important structural variables include an organic-type structure, abundant resources, frequent communication between organisational units, minimal time pressure and support. Important

cultural variables include accepting ambiguity, tolerating the impractical, keeping external controls minimal, tolerating risk, tolerating conflict, focusing on ends not means, using an open-system focus and providing positive feedback. Important human resource variables include high commitment to training and development, high job security and encouraging individuals to be idea champions.

Design thinking can also play a role in innovation. It provides a process for coming up with products that don’t yet exist.

Discussion questions

10.1 Why is managing change an integral part of every manager's job?
10.2 Contrast the 'calm waters' and 'white-water rapids' metaphors of change. Which of these would you use to describe your current life? Explain your answer.
10.3 Organisations typically have limits to how much change they can absorb. As a manager, what signs would you look for that might suggest your organisation has exceeded its capacity to change?
10.4 Think of an unsuccessful change attempt you have witnessed. (It could be a change you have tried to make in your own life, or a change that was attempted in an organisation you're familiar with.) Why did the change fail? Which of the reasons for change failures applied in that situation?
10.5 If you were in charge of implementing an organisational development initiative, which of the techniques for overcoming barriers to change would you use? Why?
10.6 How are opportunities, constraints and demands related to stress? Give an example of each.
10.7 When you find yourself experiencing dysfunctional stress, write down what's causing the stress, what stress symptoms you're exhibiting, and how you're dealing with the stress. Keep this information in a journal and evaluate how well your stress

reducers are working and how you could handle stress better. Your goal is to get to a point where you recognise that you're stressed and can take positive actions to deal with the stress.

10.8 How do creativity and innovation differ? Give an example of each.

10.9 Review the factors that foster innovation depicted in **Figure 10.4**. Which three do you think would be the most powerful in fostering innovation? Why do you think they would be the most influential?

10.10 How does an innovative culture make an organisation more effective? Could an innovative culture ever make an organisation less effective? Why or why not?

Management skills spotlight: Stress management

It’s no secret that employees, in general, are more stressed out today than previous generations. Heavier workloads, longer hours, continual reorganisations, technology that breaks down traditional barriers between work and personal life, and reduced job security are among the factors that have increased employee stress. This stress can lead to lower productivity, increased absenteeism, reduced job satisfaction and higher quit rates. When stress is excessive, managers need to know how to reduce it.

Experiential exercise

Everyone has some degree of creativity. As we've discussed in this chapter, many organisations spend a lot of time and effort trying to encourage their employees to use that creativity. In this task, you're going to practise being creative so that you can learn more about what helps (or hinders!) that process. Choose one of the consumer products shown here.

1. Identify at least five different uses for these products other than their original use. Be as creative and imaginative as you can!
2. Choose your top three ideas and be prepared to share them with your classmates.
3. Now reflect on your experience:
    a. Describe what happened. What was it like to be put 'on the spot' to come up with creative ideas? Was it a struggle or fairly easy? How did you feel . . . stressed or comfortable?
    b. Interpret your experience. Review the factors that stimulate creativity detailed in **Figure 10.4**. Which of these were present for you? Which of them were absent?
    c. Evaluate your experience. What did you learn about the influences on people's creativity?

d. How could you apply your insights in the future? What would you do differently next time you want to engage in some creative thinking?

Suradech Prapairat/Shutterstock.com

Luis Francisco Cordero/Shutterstock.com

Case application: Saving mates

The Mates in Construction (MIC) charity organisation uses the Australian tradition of ‘mateship’ to achieve one simple but important purpose: reduce suicide incidence in the building and construction industry.[62] It’s an important goal. An average of 190 construction workers take their lives each year: six times more than die from a workplace accident. One reason for this is the building and construction industry employs a lot of young males. Death by suicide accounts for a third of all deaths among young Australian males, who are three times more likely to die from intentional self-harm than females. Young male construction workers are more than twice as likely to die by suicide than other young Australian men.

> **Everyone can be part of a solution** for saving lives.

To change this, MIC operates from the premise that ‘suicide is everyone’s business’, and that everyone can be part of the solution. The organisation’s goals are: to raise awareness of suicide and of ways to prevent it; to build the capacity of individuals to help themselves and of workplaces and communities to help people who need support; and to provide help by connecting workers to practical and useful services. These include employee assistance programs, financial

counselling, drug and alcohol services, grief counselling, and family and relationship counselling.

The two key components of the MIC program are training and support. Training is used to raise awareness of the social problem of suicide within the industry, the contributing factors, and the ways in which the problem can be addressed. General awareness training is delivered on building sites to at least 80 per cent of workers. Connector training, provided to people who volunteer to be Connectors, trains them to keep someone who is in a crisis safe and connect them to professional help. ASSIST training teaches ASSIST workers how to talk to someone who is contemplating suicide, how to help them stay safe, and address their worries and concerns, and how to help them develop a ‘safe plan’.

Support includes an assistance hotline, case management processes for connecting people to support services, and onsite support from field officers who visit construction sites. Field officers also provide support after critical incidents and accidents, or after the suicide of a worker or a worker’s family member. In these instances, they focus on helping people deal with grief and emotional reactions to trauma, and on helping Connectors and ASSIST workers to identify and support people in need of help.

A big part of MIC’s work is helping workers and the industry to change some of the factors that contribute to suicide in the industry. This includes recognising that the uncertain nature of employment in building and construction creates a lack of job

and financial security that causes stress and anxiety. MIC also addresses perceptions and behaviours within the industry that make them less likely to seek help. These include reluctance to talk about feelings and emotions, perceptions that individuals who acknowledge they are having problems will be perceived as ‘not manly’, and the belief that individuals who intend to suicide don’t discuss it with others or show signs of needing help.

Changing such entrenched cultural attitudes isn’t easy, but by 2020, the MIC program had trained nearly 210,000 people and managed over 95 cases. It has also developed the Mates in Mining, Mates in Energy and Mates in New Zealand programs to provide similar support to workers in the mining and energy fields, and in New Zealand.

Discussion questions

10.11 What types of change is Mates in Construction trying to facilitate?
10.12 How is MIC facilitating organisational development on building and construction sites?
10.13 What barriers might prevent MIC from successfully fostering change? How could those barriers be overcome?
10.14 How could mining and construction companies reduce the stresses experienced by workers in the industry?

Running case: Holiday home helpers: Learning how to learn more effectively

Mia developed several new ideas for Holiday Home Helpers. Keen to launch them successfully, she started investigating the company's approach to change management and learnt that HHH prides itself on its learning orientation.

Regional managers are encouraged to identify opportunities for innovations in their local area, she found. These might be new services to offer to clients, new routines or processes to improve operational effectiveness or efficiency, or new ways to organise resources, including staff. They then write a short proposal of about five pages detailing the opportunity, which they then submit to the national management team. The proposal details the business case for the new initiative, so it must explain what value the new initiative or service would create for HHH and/or for its clients, and what resourcing it will require from the business. If the new initiative is approved, the regional manager implements it for an agreed trial period.

At the end of the trial period, the regional manager writes a formal evaluation of the initiative, usually with input from the

staff involved in its implementation. The evaluation report details how the initiative was implemented, any adjustments or ‘tweaks’ that were made to it during the trial period, the resourcing it actually required from the business and how that compared to the resourcing levels that were originally anticipated, and the outcomes it generated for clients and the company.

The head management team then reviews the report to determine whether the initiative will be continued. If it has generated the anticipated value for the company and/or its clients, and can be sustained by the business, then it becomes a permanent change to the local region’s operations. At the next regional managers’ meeting, the regional manager will deliver a presentation that details how the initiative works and what it has accomplished, so that other regional managers can then consider whether it might be worth trialling in their area.

After watching a few regional managers present their initiatives and evaluations at the regional managers’ meetings, Mia pondered the company’s practice of only having successful initiatives be presented to the group. While it does mean the company learns from its successes, it also misses a chance to learn more from its ‘failures’. She decided to present her own proposal that unsuccessful and abandoned initiatives also be reviewed, so that regional managers have a chance to consider and discuss why they may not have worked as anticipated and under what conditions they might be more successful. This would also give other regional

managers the opportunity to determine if the initiative might potentially be more successful in their own area. If so, they could then submit a new application to the national management team requesting permission to trial it in their area. That application would have to explain why the regional manager thinks it would be more successful in their area than it was in the area of origin, and any adaptations they intend to make to the original initiative to make it likely to be more successful. In this way, it would become a new innovation.

Discussion questions

10.15 Does HHH have an organisational culture that supports innovation? Which of the cultural variables detailed in **Figure 10.4** seem to be present at HHH? Which ones are missing?

10.16 How could Mia use Kurt Lewin's ideas about change to increase the chances of her initiative being adopted?

10.17 What techniques for overcoming barriers to change are used in HHH's approach to change management?

10.18 How could HHH minimise stress for employees when implementing new changes?

Endnotes

1 E. Bagshaw and R. Harris, '"Tipping Point": Energy Regulator Says Electricity Grid Won't Cope with More Solar', *Sydney Morning Herald*, 25 September 2019; A. Macdonald-Smith, 'Reliability Rules to be Tested as Renewables Pour into the Grid', *Australian Financial Review*, 31 July 2019; D. Harrison, 'What is Load Shedding and Who Decides Whose Power is Cut When There's Not Enough Electricity?', *ABC News*, 6 December 2019; and I. Verrender, 'How Government Inaction Fuelled Australia's Renewable Energy Boom', *ABC News*, 16 July 2018.

2 'Nike Uses 3D Printers to Create New Running Shoes', **https://3dprinting.com/news**, 28 February 2014, accessed 17 January 2018.

3 K. Grzbowska, 'The Social Aspect of Introducing Changes into the Organization', *International Journal of Human Resources Development and Management*, 2 February 2007, p. 67; and I. M. Jawahar and G. L. McLaughlin, 'Toward a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach', *Academy of Management Review*, July 2001, pp. 397–415.

4 **http://nicolekersh.com.au**, accessed 18 September 2017; and A. Priestley, 'Nicole Kersh: The Female Entrepreneur Who Sold up Big – and is Starting all Over Again', *Smart Company*, 20 November 2014.

5 E. Shannon, 'Agent of Change', *Time*, 4 March 2002, p. 17; B. Kenney, 'SLA Head Shaffer Resigns Abruptly: Did "Change Agent"

Move Too Fast in Aggressive Restructuring?', *Library Journal*, 15 March 2002, pp. 17–19; and T. Mudd, 'Rescue Mission', *Industry Week*, 1 May 2000, pp. 30–7.

6 The idea for these metaphors came from P. Vaill, *Managing as a Performing Art: New Ideas for a World of Chaotic Change* (San Francisco: Jossey Bass, 1989).

7 K. Lewin, *Field Theory in Social Science* (New York: Harper & Row, 1951).

8 R. E. Levasseur, 'People Skills: Change Management Tools – Lewin's Change Model', *Interfaces*, August 2001, pp. 71–4.

9 D. Lieberman, 'Nielsen Media Has Cool Head at the Top', *USA Today*, 27 March 2006, p. 3B.

10 Classic Concepts in Today's Organisations box based on D. A. Wren and A. G. Bedeian, *The Evolution of Management Thought*, 6th edn (Hoboken, NJ: John Wiley & Sons, Inc., 2009); 'Biography and Quotes of Kurt Lewin', *About.com*, psychology.about.com, 15 July 2009; and K. T. Lewin, 'The Dynamics of Group Action', *Educational Leadership*, January 1944, pp. 195–200.

11 L. S. Lüscher and M. W. Lewis, 'Organizational Change and Managerial Sensemaking: Working through Paradox', *Academy of Management Journal*, April 2008, pp. 221–40; F. Buckley and K. Monks, 'Responding to Managers' Learning Needs in an Edge-of-Chaos Environment: Insights from Ireland', *Journal of Management*, April 2008, pp. 146–63; and G. Hamel, 'Take it Higher', *Fortune*, 5 February 2001, pp. 169–70.

12 S. Hicks, 'What is Organization Development?', *Training and Development*, August 2000, p. 65; and H. Hornstein, 'Organizational Development and Change Management: Don't Throw the Baby Out

with the Bath Water', *Journal of Applied Behavioral Science*, June 2001, pp. 223–7.

13 J. Wolfram and S. Minahan, 'A New Metaphor for Organization Development', *Journal of Applied Behavioral Science*, June 2006, pp. 227–43.

14 See, for example, H. B. Jones, 'Magic, Meaning and Leadership: Weber's Model and the Empirical Literature', *Human Relations*, June 2001, p. 753.

15 G. Akin and I. Palmer, 'Putting Metaphors to Work for a Change in Organizations', *Organizational Dynamics*, Winter 2000, pp. 67–79.

16 J. Grieves, 'Skills, Values or Impression Management: Organizational Change and the Social Processes of Leadership, Change Agent Practice and Process Consultation', *Journal of Management Development*, May 2000, p. 407.

17 M. McMaster, 'Team Building Tips', *Sales & Marketing Management*, January 2002, p. 140; and 'How To: Executive Team Building', *Training and Development*, January 2002, p. 16.

18 See, for example, J. D. Ford, L. W. Ford and A. D'Amelio, 'Resistance to Change: The Rest of the Story', *Academy of Management Review*, April 2008, pp. 362–77; A. Deutschman, 'Making Change: Why Is it So Hard to Change Our Ways?', *Fast Company*, May 2005, pp. 52–62; S. B. Silverman, C. E. Pogson and A. B. Cober, 'When Employees at Work Don't Get It: A Model for Enhancing Individual Employee Change in Response to Performance Feedback', *Academy of Management Executive*, May 2005, pp. 135–47; C. E. Cunningham, C. A. Woodward, H. S. Shannon, J. MacIntosh, B. Lendrum, D. Rosenbloom and J. Brown, 'Readiness

for Organizational Change: A Longitudinal Study of Workplace, Psychological and Behavioral Correlates', *Journal of Occupational and Organizational Psychology*, December 2002, pp. 377–92; M. A. Korsgaard, H. J. Sapienza and D. M. Schweiger, 'Beaten Before Begun: The Role of Procedural Justice in Planning Change', *Journal of Management*, vol. 28, no. 4 (2002), pp. 497–516; R. Kegan and L. L. Lahey, 'The Real Reason People Won't Change', *Harvard Business Review*, November 2001, pp. 85–92; S. K. Piderit, 'Rethinking Resistance and Recognizing Ambivalence: A Multidimensional View of Attitudes Toward an Organizational Change', *Academy of Management Review*, October 2000, pp. 783–94; C. R. Wanberg and J. T. Banas, 'Predictors and Outcomes of Openness to Changes in a Reorganizing Workplace', *Journal of Applied Psychology*, February 2000, pp. 132–42; A. A. Armenakis and A. G. Bedeian, 'Organizational Change: A Review of Theory and Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 293–315; and B. M. Staw, 'Counterforces to Change', in P. S. Goodman and Associates (eds), *Change in Organizations* (San Francisco: Jossey-Bass, 1982), pp. 87–121.

19 A. Reichers, J. P. Wanous and J. T. Austin, 'Understanding and Managing Cynicism about Organizational Change', *Academy of Management Executive*, February 1997, pp. 48–57; P. Strebel, 'Why Do Employees Resist Change?', *Harvard Business Review*, May–June 1996, pp. 86–92; and J. P. Kotter and L.A. Schlesinger, 'Choosing Strategies for Change', *Harvard Business Review*, March–April 1979, pp. 107–9.

20 See, for example, P. M. Senge, *The Fifth Discipline: The Art and Practice of the Learning Organisation* (Sydney: Random House,

1990); P. S. Barr, J. L. Stimpert and A. S. Huff, 'Cognitive Change, Strategic Action and Organizational Renewal', *Strategic Management Journal*, Summer Special Issue, 1992, pp. 15–36; K. E. Weick and M. Boughton, 'Organizations as Cognitive Maps: Charting Ways to Success and Failure', in H. P. Sims, D. A. Gioia and Associates (eds), *The Thinking Organization* (San Francisco: Jossey-Bass, 1986), pp. 95–120; E. Laszlo, *Introduction to Systems Philosophy* (New York: Gordon and Breach, 1972); J. M. Lembo, *When Learning Happens* (New York: Schocken Books, 1972); D. H. Kim, 'The Link between Individual and Organizational Learning', *Sloan Management Review*, October 1993, pp. 37–50; J. Piaget, *Structuralism* (New York: Basic Books, 1971); F. Gavetti and D. Levinthal, 'Looking Forward and Looking Backward: Cognitive and Experiential Search', *Administrative Science Quarterly*, March 2000, pp. 113–37; J. Brockner and E. T. Higgins, 'Regulatory Focus Theory: Implications for the Study of Emotions at Work', *Organizational Behavior and Human Decision Processes*, September 2001, pp. 35–66.

21 M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson, 2007).

22 A. Reichers, J. P. Wanous and J. T. Austin, 'Understanding and Managing Cynicism about Organizational Change', *Academy of Management Executive*, February 1997, pp. 48–57; and J. P. Kotter and L.A. Schlesinger, 'Choosing Strategies for Change', *Harvard Business Review*, March–April 1979, pp. 107–9.

23 J. P. Kotter and L. A. Schlesinger, 'Choosing Strategies for Change', *Harvard Business Review*, March–April 1979, pp. 107–9.

24 R. Cacioppe, 'Using Team–Individual Reward and Recognition Strategies to Drive Organizational Success', *Leadership and*

Organizational Development Journal, November 1999, pp. 322–31.

25 Adapted from 'What is Work-Related Stress', UK National Work Stress Network (2010), **www.workstress.net**, accessed 20 April 2010.

26 Explanation of eustress and distress taken from M. Le Fevre, G. S. Kolt and J. Matheny, 'Eustress, Distress and their Interpretation in Primary and Secondary Occupational Stress Management Interventions: Which Way First?', *Journal of Managerial Psychology*, vol. 21, no. 6 (2006), pp. 547–65.

27 R. S. Schuler, 'Definition and Conceptualization of Stress in Organizations', *Organizational Behavior and Human Performance*, April 1980, p. 191.

28 A. D. LaMontagne, A. Martin, K. P. Page, N. J. Reavley, A. J. Noblet, A. J. Milner, T. Keegel and P. M. Smith, 'Workplace Mental Health: Developing an Integrated Intervention Approach', *BMC Psychiatry*, vol. 14 (2014), pp. 131–53.

29 A. D. LaMontagne, A. Martin, K. P. Page, N. J. Reavley, A. J. Noblet, A. J. Milner, T. Keegel and P. M. Smith, 'Workplace Mental Health: Developing an Integrated Intervention Approach', *BMC Psychiatry*, vol. 14 (2014), pp. 131–53.

30 See, for example, 'Stressed Out: Extreme Job Stress: Survivors' Tales', *Wall Street Journal*, 17 January 2001, p. B1.

31 See, for example, S. Bates, 'Expert: Don't Overlook Employee Burnout', *HR Magazine*, August 2003, p. 14.

32 A. D. LaMontagne, A. Martin, K. P. Page, N. J. Reavley, A. J. Noblet, A. J. Milner, T. Keegel and P. M. Smith, 'Workplace Mental Health: Developing an Integrated Intervention Approach', *BMC Psychiatry*, vol. 14 (2014), pp. 131–53.

33 SafeWork Australia, https://www.safeworkaustralia.gov.au/topic/mental-health#work-related-stress.

34 A. D. LaMontagne, A. Martin, K. P. Page, N. J. Reavley, A. J. Noblet, A. J. Milner, T. Keegel and P. M. Smith, 'Workplace Mental Health: Developing an Integrated Intervention Approach', *BMC Psychiatry*, vol. 14 (2014), pp. 131–53.

35 H. Benson, 'Are You Working Too Hard?', *Harvard Business Review*, November 2005, pp. 53–8; B. Cryer, R. McCraty and D. Childre, 'Pull the Plug on Stress', *Harvard Business Review*, July 2003, pp. 102–7; C. Daniels, 'The Last Taboo', *Fortune*, October 2002, pp. 136–8; C. L. Cooper and S. Cartwright, 'Healthy Mind, Healthy Organization – A Proactive Approach to Occupational Stress', *Human Relations*, April 1994, pp. 455–71; C. A. Heaney et al., 'Industrial Relations, Worksite Stress Reduction and Employee Well-Being: A Participatory Action Research Investigation', *Journal of Organizational Behavior*, September 1993, pp. 495–510; C. D. Fisher, 'Boredom at Work: A Neglected Concept', *Human Relations*, March 1993, pp. 395–417; and S. E. Jackson, 'Participation in Decision Making as a Strategy for Reducing Job-Related Strain', *Journal of Applied Psychology*, February 1983, pp. 3–19.

36 C. Mamberto, 'Companies Aim to Combat Job-Related Stress', *Wall Street Journal*, 13 August 2007, p. B6.

37 'EAPs with the Most', *Managing Benefits Plans*, March 2003, p. 8; and K. Tyler, 'Helping Employees Cope with Grief', *HR Magazine*, September 2003, pp. 55–8.

38 F. Hansen, 'Employee Assistance Programs (EAPs) Grow and Expand Their Reach', *Compensation and Benefits Review*,

March/April 2000, p. 13.

39 Based on T. Russell, 'Evolution – Not Revolution . . . Employee Assistance Programs', *Human Resources Leader*, 19 August 2009; and 'What is an Employee Assistance Program?', Employee Assistance Professional Association of Australasia, 2009, **www.eapaa.org.au**, accessed 20 April 2010.

40 'Low EAP Usage Rate is Damaging the Industry', *Human Capital*, 8 September 2014.

41 Question of Ethics box based on D. Cole, 'The Big Chill', *US News & World Report*, 6 December 2004, pp. EE2–5.

42 These definitions are based on T. M. Amabile, *Creativity in Context* (Boulder, CO: Westview Press, 1996).

43 T. M. Amabile, 'Motivating Creativity in Organizations', *California Management Review*, Fall 1997, pp. 39–58.

44 Business Victoria, 'Family Business Success', https://www.business.vic.gov.au/case-studies/family-business-success, 27 August 2019, accessed 17 June 2020.

45 Adapted from M. Woods, 'From Greenhouses to Green Future', in S. Robbins, D. Decenzo, M. Coulter and M. Woods, *Management: The Essentials,* 2nd edn (Sydney: Pearson, 2014), p. 187.

46 C. Vogel and J. Cagan, *Creating Breakthrough Products: Innovation from Product Planning to Program Approval* (Upper Saddle River, NJ: Prentice Hall, 2002).

47 R. W. Woodman, J. E. Sawyer and R. W. Griffin, 'Toward a Theory of Organizational Creativity', *Academy of Management Review*, April 1993, pp. 293–321.

48 T. M. Egan, 'Factors Influencing Individual Creativity in the Workplace: An Examination of Quantitative Empirical Research', *Advances in Developing Human Resources*, May 2005, pp. 160–81; N. Madjar, G. R. Oldham and M. G. Pratt, 'There's No Place Like Home? The Contributions of Work and Nonwork Creativity Support to Employees' Creative Performance', *Academy of Management Journal*, August 2002, pp. 757–67; T. M. Amabile, C. N. Hadley and S. J. Kramer, 'Creativity under the Gun', *Harvard Business Review*, August 2002, pp. 52–61; J. B. Sorensen and T. E. Stuart, 'Aging, Obsolescence and Organizational Innovation', *Administrative Science Quarterly*, March 2000, pp. 81–112; G. R. Oldham and A. Cummings, 'Employee Creativity: Personal and Contextual Factors at Work', *Academy of Management Journal*, June 1996, pp. 607–34; and F. Damanpour, 'Organizational Innovation: A Meta-Analysis of Effects of Determinants and Moderators', *Academy of Management Journal*, September 1991, pp. 555–90.

49 P. R. Monge, M. D. Cozzens and N. S. Contractor, 'Communication and Motivational Predictors of the Dynamics of Organizational Innovations', *Organization Science*, May 1992, pp. 250–74.

50 T. M. Amabile, C. N. Hadley and S. J. Kramer, 'Creativity under the Gun', *Harvard Business Review*, August 2002, pp. 52–61.

51 N. Madjar, G. R. Oldham and M. G. Pratt, 'There's No Place Like Home? The Contributions of Work and Nonwork Creativity Support to Employees' Creative Performance', *Academy of Management Journal*, August 2002, pp. 757–67.

52 See, for example, J. E. Perry-Smith, 'Social Yet Creative: The Role of Social Relationships in Facilitating Individual Creativity',

Academy of Management Journal, February 2006, pp. 85–101; C. E. Shalley, J. Zhou and G. R. Oldham, 'The Effects of Personal and Contextual Characteristics on Creativity: Where Should We Go from Here?', *Journal of Management*, vol. 30, no. 6 (2004), pp. 933–58; J. E. Perry-Smith and C. E. Shalley, 'The Social Side of Creativity: A Static and Dynamic Social Network Perspective', *Academy of Management Review*, January 2003, pp. 89–106; J. M. George and J. Zhou, 'When Openness to Experience and Conscientiousness Are Related to Creative Behavior: An Interactional Approach', *Journal of Applied Psychology*, June 2001, pp. 513–24; J. Zhou, 'Feedback Valence, Feedback Style, Task Autonomy and Achievement Orientation: Interactive Effects on Creative Behavior', *Journal of Applied Psychology*, vol. 83 (1998), pp. 261–76; T. M. Amabile, R. Conti, H. Coon, J. Lazenby and M. Herron, 'Assessing the Work Environment for Creativity', *Academy of Management Journal*, October 1996, pp. 1154–84; S. G. Scott and R. A. Bruce, 'Determinants of Innovative People: A Path Model of Individual Innovation in the Workplace', *Academy of Management Journal*, June 1994, pp. 580–607; R. Moss Kanter, 'When a Thousand Flowers Bloom: Structural, Collective and Social Conditions for Innovation in Organization', in B. M. Staw and L. L. Cummings (eds), *Research in Organizational Behavior*, vol. 10 (Greenwich, CT: JAI Press, 1988), pp. 169–211; and T. M. Amabile, *Creativity in Context* (Boulder, CO: Westview Press, 1996).

53 J. McGregor, 'The World's Most Innovative Companies', *BusinessWeek*, 24 April 2006, p. 70.

54 'Zinc', *2016 Best Places to Work*, 2016, p. 22; Zinc, www.zincgroup.com/, accessed 15 November 2017; 'Five Tips to

Creating a Great Work Place (By Someone Who Created a Great Place to Work)', *B&T*, 31 August 2017.

55 J. Ramos, 'Producing Change that Lasts', *Across the Board*, March 1994, pp. 29–33; T. Stjernberg and A. Philips, 'Organizational Innovations in a Long-Term Perspective: Legitimacy and Souls-of-Fire as Critical Factors of Change and Viability', *Human Relations*, October 1993, pp. 1193–2023; and J. M. Howell and C. A. Higgins, 'Champions of Change', *Business Quarterly*, Spring 1990, pp. 31–2.

56 'Setting New Standards in Customer Service', **www.business.vic.gov.au/case-studies/setting-new-standards-in-customer-service**, accessed 18 September 2017.

57 S. Robbins, M. Coulter and D. A. DeCenzo, *Fundamentals of Management*, 11th edn (New York: Pearson, 2020), p. 180.

58 J. Liedtka and T. Ogilvie, *Designing for Growth: A Design Thinking Tool Kit for Managers* (New York: Columbia Business School Press, 2011).

59 '50 Most Innovative Companies 2016: Commonwealth Bank of Australia', *Australian Financial Review*, 18 August 2016.

60 'Coronavirus: Louis Vuitton Owner to Start Making Hand Sanitiser', *BBC News,* 16 March 2020.

61 L. Zigarmi and D. Larson, 'An Exercise to Help Your Team Overcome the Trauma of the Pandemic', *Harvard Business Review*, 1 September 2020.

62 S. Parnell, 'Miners, Builders Have the Nation's Highest Suicide Rates', *The Australian*, 4 August 2017; Mates in Construction, 'How MIC Works', **http://matesinconstruction.org.au/about/how-mic-works**, accessed 29 October 2017; J. Longbottom, 'Suicide Rates for Young Australians Highest in 10 Years, Researchers Call for New

Prevention Strategies', *ABC News*, 30 November 2016; Australian Bureau of Statistics, 'Intentional Self Harm: Key Characteristics', **www.abs.gov.au**, accessed 29 October 2017; and Mates in Construction, **https://mates.org.au**, accessed 17 June 2020.

Chapter 11 Understanding individual behaviour

Fact or fiction?

A good manager treats all employees the same.

Fiction

One thing you've probably realised over the years is how differently you and your friends deal with life's situations. Some friends are laid-back; others are more anxious. Some are good at reading others' emotions; others aren't. The same is true of the people a manager manages. That's why ***a good manager works hard to get to know the unique individual characteristics of the people on their team*** in order to manage each of them effectively.

Most organisations want to attract and retain employees with the right attitudes and

personality. They want people who show up and work hard, get along with co-workers and customers, have good attitudes and exhibit good work behaviours in other ways. But as you're probably already aware, people don't always behave like that 'ideal' employee. They change jobs at the first opportunity or they may post critical comments about their workplaces online. People differ in their behaviours, and even the same person can behave one way one day and a completely different way the next. For example, you might have seen family members, friends or co-workers behave in ways that prompted you to wonder: Why did they do that? In this chapter, we look at four psychological aspects – attitudes, personality, perception and learning – and demonstrate how these things can help managers understand the behaviour of those people with whom they have to work. We conclude the chapter by looking at contemporary behavioural issues facing managers.

Learning outcomes

11.1 Identify the focus and goals of organisational behaviour (OB).

11.2 Explain the role that attitudes play in job performance.
11.3 Describe different personality theories.
11.4 Describe perception and the factors that influence it.
11.5 Discuss learning theories and their relevance in shaping behaviour.
11.6 Discuss contemporary issues in OB.

Getting emotional at Google

When you think about what it might be like to work for Google, you're probably thinking about things like the company's reputation for providing cool, fun breakout spaces, interesting perks and an almost-anything-goes work environment. One thing you might be surprised to learn is that Google also offers its employees a self-improvement course (one of many) called Search Inside Yourself (SIY), which is so popular that thousands of Googlers are on the waiting list to take it! But it may not be that surprising after all. Google is known for hiring the best and brightest engineers, with a lot of knowledge and technical training. But it also needs its very smart, competent, tech-oriented employees to be able to work together to solve problems and design new ways to keep moving the company forward. SIY helps Googlers develop the emotional intelligence skills needed for successful collaboration.

SIY was developed in 2007 by a long-time Google engineer, Chade-Meng Tan. (He is employee number 107, to be exact.) Tan's current job title is 'Jolly Good Fellow', and his job description says he wants to 'enlighten minds, open hearts and create World Peace'.[1] He designed the SIY course to show Googlers how to be more aware of their emotions, to be more compassionate towards others, to be able to build sustainable relationships both inside and outside the company, and to contribute to world peace (no, that's not a joke). SIY is based on the five dimensions of emotional intelligence – self-awareness, self-management, self-motivation, empathy and social skills – and is broken into three parts. The first part of the course focuses on *attention training* – being able to centre yourself calmly and clearly in the midst of whatever is going on around you, whether that is shouting, stress, conflict, work pressures or whatever. The second part involves *self-knowledge* – being aware of your emotions and eventually being able to master those emotions. The third part is creating *mental habits* – being in control of your emotions and being able to naturally think how to relate calmly and kindly to others.

And how did Tan make a course on emotional intelligence appealing to people who are extremely intelligent and very logical, practical and straightforward? By knowing his audience! Tan designed the course to focus on the intellectually intelligent side of people's natures by focusing on the neuroscience behind emotional intelligence and the behavioural control it can facilitate.

What are the focus and goals of organisational behaviour?

Learning outcome 11.1 Identify the focus and goals of organisational behaviour (OB).

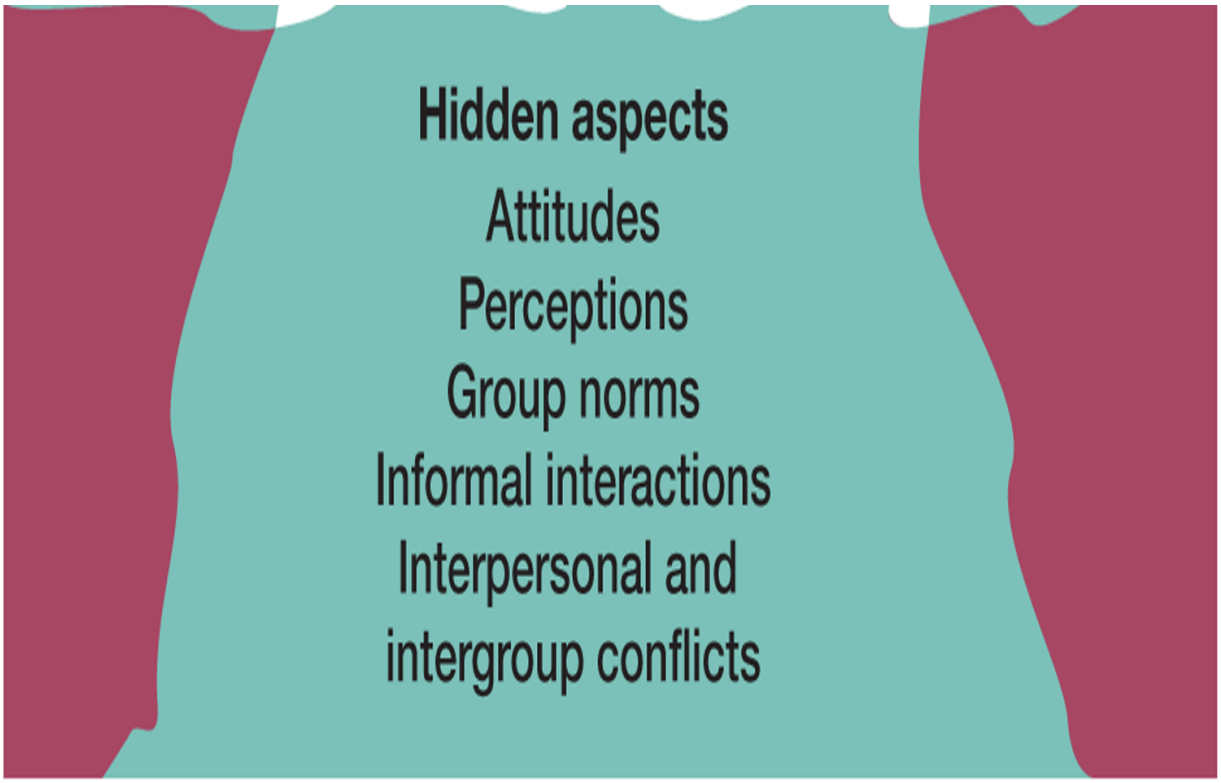
The material in this and the next four chapters draws heavily on the field of study that's known as *organisational behaviour (OB)*. Although it's concerned with the subject of **behaviour** – that is, the actions of people – **organisational behaviour** is the study of the actions of people at work.

behaviour
The actions of people

organisational behaviour
The study of the actions of people at work

One of the challenges in understanding organisational behaviour is that it addresses issues that aren't obvious. Like an iceberg, OB has a small visible dimension and a much larger hidden portion (see **Figure 11.1**). What we see when we look at an organisation are its visible aspects: strategies, objectives, policies and procedures, structure, technology, formal authority relationships and chain of command. But under the surface are other elements that managers need to understand – elements that also influence how employees behave at work. As we'll show, OB provides managers with considerable insights into these important, but hidden, aspects of the organisation.

Figure 11.1 Organisation as iceberg


Hidden aspects
Attitudes
Perceptions
Group norms
Informal interactions
Interpersonal and
intergroup conflicts

What is the focus of OB?

Organisational behaviour focuses on three main areas:

- *Individual behaviour*. Based predominantly on contributions from psychologists, this area includes such topics as attitudes, personality, perception, learning and motivation.
- *Group behaviour*, which includes norms, roles, team building, leadership and conflict. Our knowledge about groups comes basically from the work of sociologists and social psychologists.
- *Organisational aspects*, including structure, culture, and human resource policies and practices. We've addressed organisational aspects in previous chapters. In this chapter, we'll look at individual behaviour and in the following chapter, at group behaviour.

What are the goals of organisational behaviour?

The goals of OB are to *explain, predict* and *influence* behaviour. Managers need to be able to *explain* why employees engage in some behaviours rather than others, *predict* how employees will respond to various actions and decisions, and *influence* how employees behave.

Managers are specifically concerned with explaining, predicting and influencing the following six employee behaviours. (1) **Employee productivity** is a performance measure of both work efficiency and effectiveness. Managers want to know what factors will influence the efficiency and effectiveness of employees. (2) **Absenteeism** is the failure to show up for work. It's difficult for work to get done if employees don't show up. Unscheduled absences can cost companies up to $340 per day, which is estimated to cost the Australian economy around 92 million working days, or $33 billion, per year.[2] Although absenteeism can't be totally eliminated, excessive levels have a direct and immediate impact on the organisation's functioning. (3) **Turnover** is the voluntary and involuntary permanent withdrawal from an organisation. It can be a problem because of increased recruiting, selection and training costs, and work disruptions. Just like absenteeism, managers can never eliminate turnover, but it's something they want to minimise, especially

among high-performing employees. (4) **Organisational citizenship behaviour (OCB)** is discretionary behaviour that's not part of an employee's formal job requirements, but which promotes the effective functioning of the organisation.[3] Examples of good OCB include helping others on one's work team, volunteering for extended job activities, avoiding unnecessary conflicts, and making constructive statements about one's work group and the organisation. Organisations need individuals who will do more than their usual job duties, and the evidence indicates that organisations that have such employees outperform those that don't.[4] However, drawbacks to OCB arise if employees experience work overload, stress and work–family conflicts.[5] (5) **Job satisfaction** refers to an employee's general attitude towards their job. Although job satisfaction is an attitude rather than a behaviour, it's an outcome that concerns many managers because satisfied employees are more likely to show up for work, have higher levels of performance and stay with an organisation. (6) **Workplace misbehaviour** is any intentional employee behaviour that is potentially harmful to the organisation or individuals within the organisation. Workplace misbehaviour shows up in organisations in four ways: deviance, aggression, antisocial behaviour and violence.[6] Such behaviours can range from playing loud music just to irritate co-workers to verbal aggression or even to sabotaging work, all of which can create havoc in any organisation.

employee productivity

A performance measure of both work efficiency and effectiveness

absenteeism

The failure to show up for work

turnover

Voluntary and involuntary permanent withdrawal from an organisation

organisational citizenship behaviour (OCB)

Discretionary behaviour that’s not part of an employee’s formal job requirements, but that promotes the effective functioning of the organisation

job satisfaction

An employee's general attitude towards their job

workplace misbehaviour

Any intentional employee behaviour that is potentially harmful to the organisation or individuals within the organisation

In the following pages, we'll address how an understanding of four psychological factors – employee attitudes, personality, perception and learning – can help us predict and explain these employee behaviours.

What role do attitudes play in job performance?

Learning outcome 11.2 Explain the role that attitudes play in job performance.

Attitudes are evaluative statements, either favourable or unfavourable, concerning objects, people or events. They reflect how an individual feels about something. When a person says, ‘I like my job’, they are expressing an attitude about work.

attitudes

Evaluative statements, either favourable or unfavourable, concerning objects, people or events

What are the three components of an attitude?

An attitude is made up of three components: cognition, affect and behaviour.[7]

- The **cognitive component** of an attitude is made up of the beliefs, opinions, knowledge and information held by a person. For example, Brad feels strongly that smoking is unhealthy.

> ***cognitive component***
> The part of an attitude made up of the beliefs, opinions, knowledge and information held by a person

- The **affective component** is the emotional or feeling part of an attitude. This component would be reflected in the statement by Brad, 'I don't like Erica because she smokes.' Cognition and affect can lead to behavioural outcomes.

affective component
: The emotional or feeling part of an attitude

- The **behavioural component** of an attitude refers to an intention to behave in a certain way towards someone or something. So, to continue our example, Brad might choose to avoid Erica because of his feelings about her.

behavioural component
: The part of an attitude that refers to an intention to behave in a certain way towards someone or something

What attitudes might employees hold?

Naturally, managers aren't interested in every attitude an employee might hold. Rather, they're specifically interested in their job-related

attitudes.[8] For example:

- Job satisfaction is an employee's general attitude towards their job. When people speak of employee attitudes, more often than not they mean job satisfaction.
- **Job involvement** is the degree to which an employee identifies with their job, actively participates in it, and considers their job performance important for self-worth.

> ***job involvement***
>
> The degree to which an employee identifies with their job, actively participates in it, and considers their job performance important for self-worth

- **Organisational commitment** represents an employee's orientation towards the organisation in terms of their loyalty to, identification with and involvement in the organisation.

> ***organisational commitment***
>
> An employee's orientation towards the organisation in terms of their loyalty to,

identification with and involvement in the organisation

- **Employee engagement** is the extent to which employees are connected to, satisfied with and enthusiastic about their jobs.[9] Highly engaged employees are passionate about and deeply connected to their work. Disengaged employees have essentially 'checked out' and don't care. They show up for work, but have no energy or passion for it.

employee engagement
When employees are connected to, satisfied with and enthusiastic about their jobs

Having highly engaged employees produces both benefits and costs. It's estimated that employee disengagement costs Australia $70 billion per year in lost productivity, workplace accidents, staff turnover and absenteeism.[10] Therefore, by engaging employees more fully, organisations can improve productivity and performance. Highly engaged employees are two-and-a-half times more likely to be top performers than their less-engaged co-workers. In addition,

companies with highly engaged employees have higher retention rates, which help keep recruiting and training costs low. And both of these outcomes – higher performance and lower costs – contribute to superior financial performance.[11]

Digital technologies are offering new options for investigating the attitudes people hold towards their work and their workplace. Many companies now use apps to conduct attitude surveys of their workforce. Apps provide quick insights into how employees are feeling and gather instant feedback about the impact of announcements and strategies. For example, Atlassian, an Australian software development company, poses a daily attitudinal question to each of its 500 staff. Employees answer by tapping their iPad screen: tapping a second time shows them how their answers compare to those of their colleagues. The app even identifies the different perspectives of employees on different floors of the office!

Do individuals' attitudes and behaviours need to be consistent?

> What I believe is what **I do** – I hope.

Research generally concludes that people seek consistency among their attitudes and between their attitudes and their behaviour.[12] Individuals try to reconcile differing attitudes and align their attitudes and behaviour so that they appear rational and consistent. How? By altering their attitudes or their behaviour, OR by developing a rationalisation for the discrepancy.

What is cognitive dissonance theory?

When people try to make their behaviour and attitudes consistent, it's due to cognitive dissonance.

Cognitive dissonance theory, proposed by Leon Festinger in the 1950s, sought to explain the relationship between attitudes and behaviour.[13] **Cognitive dissonance** is any incompatibility or inconsistency between attitudes, or between behaviour and attitudes. The theory argued that inconsistency is uncomfortable and that individuals will try to reduce the discomfort and, thus, the dissonance.

> ***cognitive dissonance***
>
> Any incompatibility or inconsistency between attitudes, or between behaviour and attitudes

Of course, no one can avoid dissonance. You know you should floss your teeth every day, but maybe you don't do it. There's an inconsistency between attitude and behaviour. How do we cope with cognitive dissonance? The theory proposed that how hard we try to

reduce dissonance is determined by (1) the *importance* of the factors creating the dissonance, (2) the degree of *influence* the individual believes they have over those factors, and (3) the *rewards* that may be involved in dissonance.

If the factors creating the dissonance are relatively unimportant, the pressure to correct the inconsistency will be low. However, if those factors are important, individuals may change their behaviour, conclude that the dissonant behaviour isn't so important, change their attitude, or identify compatible factors that outweigh the dissonant ones.

How much influence individuals believe they have over the factors also affects their reaction to the dissonance. If they perceive the dissonance is something about which they have no choice, they won't be receptive to attitude change or feel a need to do so. If, for example, the dissonance-producing behaviour was required as a result of a manager's order, the pressure to reduce dissonance would be less than if the behaviour had been performed voluntarily. Although dissonance exists, it can be rationalised and justified by the need to follow the manager's orders – that is, the person had no choice or control.

Finally, rewards also influence the degree to which individuals are motivated to reduce dissonance. Coupling high dissonance with high rewards tends to reduce the discomfort by motivating the individual to believe that there is consistency.

Let’s look at an example. Tracey Ford, a corporate manager, believes strongly that no company should make employees redundant. Unfortunately, Tracey has to make decisions that go against this belief. She knows that organisational restructuring means some jobs may no longer be needed. She also knows that redundancies are in the best economic interest of her firm. What will she do? Undoubtedly, Tracey is experiencing a high degree of cognitive dissonance. Let’s explain her behaviour.

Most people know that the brightness of phone screens stimulates your brain, yet many people use their phones before they go to sleep. To reduce this cognitive dissonance, they may stop using their phones or they may rationalise that using their phone helps their brain wind down at the end of the day.

Panther Media/Alamy Stock Photo

- **Importance of factors.** Because of the importance of the issues in this example, Tracey can't ignore the inconsistency. To deal with her dilemma, she can follow several steps. She can change her behaviour (make employees redundant), or she can reduce dissonance by concluding that the dissonant behaviour isn't so important after all ('I've got to make a living and in my role as a decision maker, I often have to place the good of my company above that of individual organisational members'). She might also change her attitude ('There's nothing wrong in making employees redundant'). Finally, another choice would be to seek out more consonant elements to outweigh the dissonant ones ('The long-

term benefits of our restructuring for the remaining employees more than offset the associated costs').

- **Degree of influence.** The degree of influence that Tracey believes she has also impacts how she reacts to the dissonance. If she perceives the dissonance to be uncontrollable – something about which she has no choice – she's less likely to feel she needs to change her attitude. If, for example, her boss told her that she had to make some employees redundant, the pressure to reduce dissonance would be less than if Tracey was performing the behaviour voluntarily. Dissonance would exist, but it could be rationalised and justified. This tendency illustrates why it's critical in today's organisations for leaders to establish an ethical culture. Without the leaders' influence and support, employees won't feel as much dissonance when faced with decisions of whether to act ethically or unethically.[14]
- **Rewards.** Finally, rewards also influence how likely Tracey is to reduce dissonance. High dissonance, when accompanied by high rewards, tends to reduce the tension inherent in the dissonance. The reward reduces dissonance by adding to the consistency side of the individual's balance sheet. Tracey might feel that, because she is well compensated in her job, she sometimes has to make hard decisions, such as making employees redundant.

So, what can we say about dissonance and employee behaviour? These moderating factors suggest that although individuals experience dissonance, they won't necessarily act in ways that reduce dissonance and increase consistency. If the issues underlying the dissonance are of minimal importance, if an individual perceives

that the dissonance is externally imposed and is substantially uncontrollable, or if rewards are significant enough to offset the dissonance, the individual won't be under great tension to reduce the dissonance.[15]

How can an understanding of attitudes help managers be more effective?

Managers should be interested in their employees' attitudes because they influence behaviour in the following ways:

- Satisfied and committed employees have lower rates of turnover and absenteeism. If managers want to keep resignations and absences down – especially among their more productive employees – they'll want to do things that generate positive job attitudes.
- Whether satisfied workers are productive workers is a debate that's been going on for almost 80 years. After the Hawthorne studies (see the appendix at the end of the text), managers believed that happy workers were productive workers. Because it's not easy to determine whether job satisfaction 'caused' job productivity or vice versa, some management researchers felt that the belief was generally wrong. However, we can say with some certainty that the correlation between satisfaction and productivity is fairly strong.[16] Satisfied employees do perform better on the job. So, managers should focus on those factors that have been shown to be conducive to high levels of employee job satisfaction: making work challenging and interesting, providing equitable

rewards, and creating supportive working conditions and supportive colleagues.[17] These factors are likely to help employees be more productive.

- Managers should also survey employees about their attitudes. As one study put it, ‘A sound measurement of overall job attitude is one of the most useful pieces of information an organisation can have about its employees.’[18] However, research has also shown that attitude surveys can be more effective at pinpointing employee dissatisfaction if done multiple times rather than just at one point in time.[19]
- Managers should know that employees will try to reduce dissonance. If employees are required to do things that appear inconsistent to them or that are at odds with their attitudes, managers should remember that pressure to reduce the dissonance isn’t as strong when the employee perceives that the dissonance is externally imposed and uncontrollable. It’s also decreased if rewards are significant enough to offset the dissonance. So, the manager might point to external forces such as competitors, customers or other factors when explaining the need to perform some work that the individual may have some dissonance about. Or the manager can provide rewards that an individual desires.

Managing for sustainability: Translating good intentions into action

Positive attitudes towards sustainability are important, and increasingly common. For example, a study of just over 1,000 Australian workers found that nearly 70 per cent of respondents felt that it was important for their organisation to behave sustainably, and less than 10 per cent felt that it wasn't important at all.[20] But only 30 per cent of respondents who said they were motivated to use sustainable practices at work rated themselves as good or very good at actually doing so. So, how do organisations convert those positive attitudes into positive actions? According to Julie Newman, director of sustainability for Massachusetts Institute of Technology, in the United States, it takes awakening, pioneering and transformation.[21]

Awakening means creating awareness of the importance of sustainability and getting sustainability issues onto the organisation's radar. This might occur by fostering discussions about sustainability issues, instigating projects or task forces

to examine sustainability concerns, or hiring people who are passionate about sustainability.

Pioneering involves integrating a sustainability focus into the organisation's culture, structure and activities with the goal of performing its usual activities in more sustainable ways. This might include establishing an organisational strategy for sustainability, setting targets for improving organisational sustainability (such as reducing carbon emissions) and establishing new levels of leadership within the organisation on sustainability issues.

In the transformation phase, sustainability principles are embedded into every aspect of the organisation. This may include the development of new decision processes, structures and operational systems to achieve more sustainable outcomes for the organisation. It may even go as far as the organisation changing its fundamental mission, goals and focus.

What do managers need to know about personality?

Learning outcome 11.3 Describe different personality theories.

Personality. We all have one!

If you've ever shared a living space with someone else (family or non-family), you know how important it is to be compatible and to get along with each other. This compatibility is influenced by personalities. An individual's **personality** is a unique combination of emotional, thought and behavioural patterns that affect how a person reacts to situations and interacts with others. Personality is most often described in terms of measurable traits that a person exhibits. We're interested in looking at personality because, just like attitudes, it affects how and why people behave the way they do.

personality

A unique combination of emotional, thought and behavioural patterns that affect how a person reacts to situations and interacts with others

How can we best describe personality?

Your personality traits influence, among other things, how you interact with others and how you solve problems. Literally dozens of behaviours are attributed to an individual's personality traits. But how can we best describe personality? Over the years, researchers have attempted to focus specifically on which personality traits and personality types would describe an individual's personality. Two widely recognised personality research efforts are the Myers-Briggs Type Indicator® and the Big Five model. In addition, we can't possibly describe personality and behaviour without looking at emotions.

What is the Myers-Briggs type indicator?

One of the more widely used methods of identifying personalities is the **Myers-Briggs Type Indicator (MBTI)**. The MBTI® assessment uses four dimensions of personality to identify 16 different personality types based on the responses to an approximately 100-item questionnaire. Each year, more than 2.5 million individuals around the world take the MBTI® assessment.[22] It's used by organisations such as Australia Post, Qantas, Telstra and the Australian Bureau of Statistics.[23] The MBTI assessment is based on Carl Jung's theory that individuals have distinctive tendencies in the

ways they experience the world.[24] It measures people's tendencies, or ways they prefer to behave, on four personality dimensions:

- **Extraversion versus Introversion (EI).** The EI dimension describes an individual's orientation towards the external world of the environment (E) or the inner world of ideas and experiences (I).
- **Sensing versus Intuition (SN).** The SN dimension indicates an individual's preference for gathering data while focusing on a standard routine based on factual data (S) to focusing on the big picture and making connections among the facts (N).
- **Thinking versus Feeling (TF).** The TF dimension reflects an individual's preference for making decisions in a logical and analytical manner (T) or on the basis of values and beliefs, and the effects the decision will have on others (F).
- **Judging versus Perceiving (JP).** The JP dimension reflects an attitude towards how an individual deals with the external world – either in a planned and orderly way (J) or preferring to remain flexible and spontaneous (P).[25]

Myers-Briggs Type Indicator (MBTI)

A personality assessment that uses four dimensions of personality to identify different personality types

It's important to remember that each of these dimensions exists as a spectrum between two extremes. A person might have a strong preference for behaving a certain way (e.g. they may be strongly introverted or strongly extroverted), which will significantly affect how they do things. Or they might have a weak preference, which means they are not strongly oriented one way or the other.

Completing the questionnaire provides a profile of people's personality type. Let's give you some examples:

- **ISTJ (Introversion – Sensing – Thinking – Judging).** quiet, serious, dependable, practical and matter-of-fact.
- **ESFP (Extraversion – Sensing – Feeling – Perceiving).** outgoing, friendly, spontaneous, enjoys working with others and learns best by trying a new skill with other people.
- **INFP (Introversion – Intuition – Feeling – Perceiving).** idealistic, loyal to personal values, and seeks to understand people and help them fulfil their potential.
- **ENTJ (Extraversion – Intuition – Thinking – Judging).** frank, decisive and will assume leadership roles; also enjoys long-term planning and goal setting and is forceful in presenting ideas.[26]

How can the MBTI® assessment help managers? Proponents believe that it's important to know these personality types because they influence the way people interact and solve problems.[27] For example, if your boss prefers Intuition and you're a Sensing type, you'll deal with information in different ways. An Intuition preference indicates your boss is one who prefers gut reactions, whereas you, as a

Sensing type, prefer to deal with the facts. To work well with your boss, you have to present more than just facts about a situation – you'll also have to discuss your gut feeling about the situation. The MBTI® assessment has also been found to be useful in focusing on growth orientations for entrepreneurial types as well as profiles supporting emotional intelligence (something we'll look at shortly).[28]

What is the big five model of personality?

Another way of viewing personality is through a five-factor model of personality – more typically called the **Big Five model**.[29] The Big Five factors are described in **Table 11.1**. The model provides more than just a personality framework. Research has shown that important relationships exist between these personality dimensions and job performance.[30] For example, one study reviewed five categories of occupations: professionals (e.g. engineers, architects, lawyers), police, managers, sales, and semiskilled and skilled employees. Job performance was defined in terms of employee performance ratings, training competency and personnel data such as salary level. The results of the study showed that conscientiousness predicted job performance for all five occupational groups.[31] Predictions for the other personality dimensions depended on the situation and the occupational group. For example, extraversion predicted performance in managerial and sales positions, in which high social interaction is necessary.[32] Openness to experience was found to be important in predicting training competency. Ironically, emotional stability wasn't positively related to job performance. Although it would seem logical that calm and secure workers would

be better performers, that wasn't the case. Perhaps it's a function of the likelihood that emotionally stable workers often keep their jobs and emotionally unstable people may not. Given that all those participating in the study were employed, the variance on that dimension was probably small.

Table 11.1 Big Five model factors

Big Five model

A personality trait model that examines five traits: extraversion, agreeableness, conscientiousness, emotional stability and openness to experience

What is emotional intelligence?

People who understand their own emotions and are good at reading others' emotions may be more effective in their jobs. That, in essence, is the theme of the underlying research on emotional intelligence.[33]

Emotional intelligence (EI) refers to an assortment of non-cognitive skills, capabilities and competencies that influences a

person's ability to cope with environmental demands and pressures.[34] It's composed of five dimensions:

- **Self-awareness:** being aware of what you're feeling.
- **Self-management:** managing your own emotions and impulses.
- **Self-motivation:** persisting in the face of setbacks and failures.
- **Empathy:** sensing how others are feeling.
- **Social skills:** adapting to and handling the emotions of others.

Emma Isaacs, global CEO of Business Chicks, has high emotional intelligence. Her self-awareness, self-management, self-motivation, empathy and social skills have been valuable assets as she has established a business community for women of over 35,000 entrepreneurs around the world.[35]

Louise Kennerley/Fairfax

emotional intelligence (EI)

The ability to notice and to manage emotional cues and information

Emotional intelligence affects people's ability to develop rapport and understanding with others, generate positive emotional states and enhance creativity in decision making,[36] which has led researchers to

explore whether EI makes people more effective in their jobs.[37] Several studies have found that EI is positively related to a person's job satisfaction, job performance, organisational citizenship behaviour, commitment and attachment to their organisation.[38] For example, a study of 358 randomly selected managers in the Johnson & Johnson group of companies found that the leaders 'who received performance ratings of 4.1 or greater on a 5-point scale were rated by superiors and subordinates significantly higher than other participants in self-awareness, self-management, social awareness and social skills'.[39] Organisations such as Australia Post and Crowne Plaza have found that implementing EI programs has helped to enhance decision making and leadership; other organisations also found similar results that show EI contributes to team and organisational effectiveness.[40] Studies have also indicated that EI can be beneficial to customer satisfaction, profit generation and quality improvements in contemporary organisations.[41] The implications from the initial EI evidence are that employers should consider EI as a criterion in their selection process, especially for those jobs that demand a high degree of social interaction.[42]

Can personality traits predict practical work-related behaviours?

Five specific personality traits have proven most powerful in explaining individual behaviour in organisations: locus of control, Machiavellianism, self-esteem, self-monitoring and risk propensity. Let’s take a look at each of these.

A question of ethics: Faking feelings

Have you ever faked a smile? All of us have done this sometime, somewhere. Now research has shown that employees 'fake a positive outlook when the boss is around'.[43] Being ambivalent (or even negative) about your work or about working for your organisation can be a definite detriment. Employers want to see passion. They want you to love your job and be excited about coming to work and about doing your job. And when you don't? If you want to keep your job, you fake it. But all that faking takes a toll.

Discuss this

- What ethical issues might arise under these circumstances for both employees and for managers?
- How could managers create an environment where employees don't have to fake a positive outlook?

Five specific personality traits influence behaviour.

1. **Locus of control** refers to people's beliefs about their control over their circumstances. People with an internal locus

of control believe they control their own fate. People with an external locus of control see themselves as pawns of fate, believing that what happens to them in their lives is due to luck or chance.[44] A manager might also expect to find that 'externals' blame a poor performance evaluation on their boss's prejudice, their colleagues or other events outside their control, whereas 'internals' explain the same evaluation in terms of their own actions.

locus of control

The degree to which people believe they control their own fate

2. The second characteristic is **Machiavellianism ('Mach')**, named after Niccolo Machiavelli, who provided instruction in the 16th century on how to gain and manipulate power. An individual who is high in Machiavellianism is pragmatic, maintains emotional distance, believes that ends can justify the means,[45] and may have beliefs that are less ethical.[46] The philosophy 'if it works, use it' is consistent with a high Mach perspective. Do high Machs make good employees? That answer depends on the type of job and whether you consider ethical implications in evaluating performance. In jobs that require bargaining skills (a labour negotiator) or that have

substantial rewards for winning (a commissioned salesperson), high Machs are productive. In jobs in which ends don't justify the means or that lack absolute standards of performance, it's difficult to predict the performance of high Machs.

> ***Machiavellianism ('Mach')***
> A measure of the degree to which people are pragmatic, maintain emotional distance and believe that ends justify means

3. People differ in the degree to which they like or dislike themselves. This trait is called **self-esteem (SE)**.[47] The research on SE offers some interesting insights into organisational behaviour. For example, SE is directly related to expectations for success. High SEs believe that they possess the ability to succeed at work. Individuals with high SE will take more risks in job selection and are more likely to choose unconventional jobs than are people with low SE.[48] The most common finding on self-esteem is that low SEs are more susceptible to external influence than are high SEs. Low SEs are dependent on positive evaluations from others. As a result, they're more likely to seek approval from others and more prone to conform to the beliefs and behaviours of those they

respect than are high SEs. In managerial positions, low SEs will tend to be concerned with pleasing others and, therefore, will be less likely to take unpopular stands than will high SEs. Not surprisingly, self-esteem has also been found to be related to job satisfaction. A number of studies confirm that high SEs are more satisfied with their jobs than are low SEs.

> ***self-esteem (SE)***
>
> An individual's degree of like or dislike for themself

4. Another personality trait researchers have identified is called **self-monitoring**.[49] Individuals high in self-monitoring can show considerable adaptability in adjusting their behaviour to external, situational factors.[50] They're highly sensitive to external cues and can behave differently in different situations. High self-monitors are capable of presenting striking contradictions between their public persona and their private selves. Low self-monitors can't alter their behaviour. They tend to display their true dispositions and attitudes in every situation; hence, they exhibit high behavioural consistency between who they are and what they do. Evidence suggests that high self-monitors tend to pay closer attention to the behaviour of others and are more capable of conforming than

are low self-monitors.[51] We might also hypothesise that high self-monitors will be more successful in managerial positions that require individuals to play multiple, and even contradicting, roles.

self-monitoring

A personality trait that measures the ability to adjust behaviour to external situational factors

5. The final personality trait influencing worker behaviour reflects the willingness to take chances – the propensity for **risk taking**. A preference to assume or avoid risk has been shown to have an impact on how long it takes individuals to make a decision and how much information they require before making their choice. For example, in one classic study, 79 managers worked on a simulated human resources management exercise that required them to make hiring decisions.[52] High risk-taking managers made more rapid decisions and used less information in making their choices than did the low risk-taking managers. Interestingly, the decision accuracy was the same for both groups.

risk taking

The degree of willingness to take chances

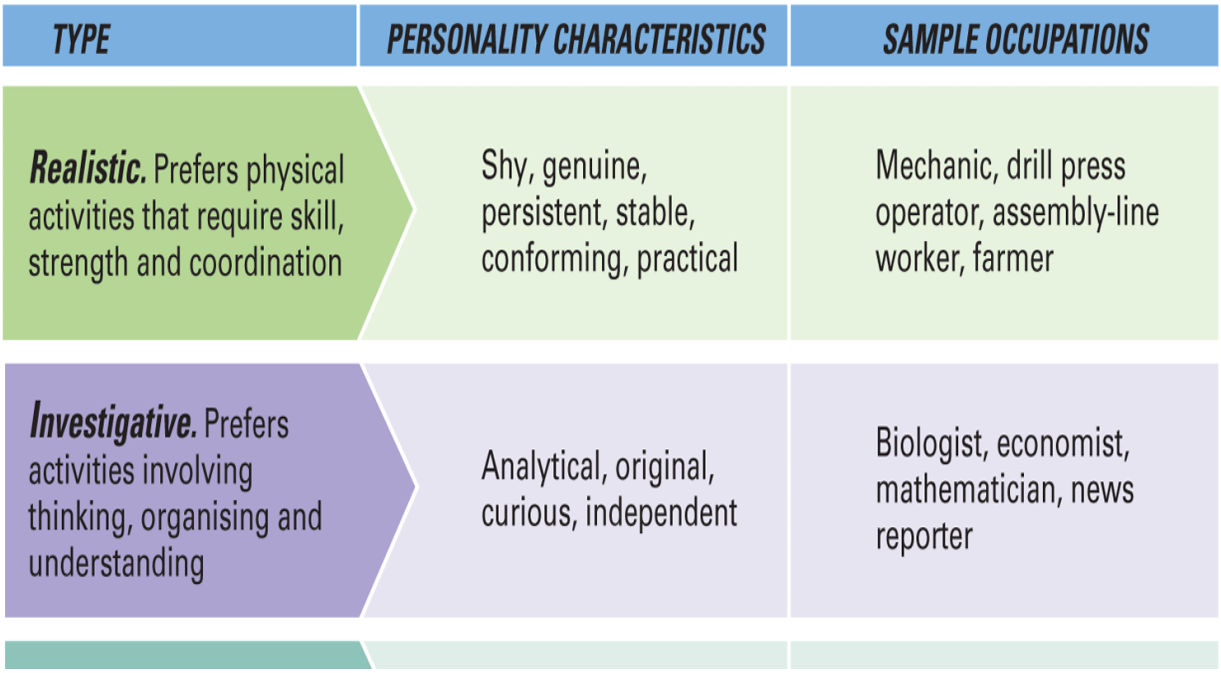
Although it's generally correct to conclude that managers in organisations are risk averse, especially in large companies and government agencies,[53] individual differences are still found on this dimension.[54] As a result, it makes sense to recognise these differences and even to consider aligning risk-taking propensity with specific job demands. For example, a high risk-taking propensity may lead to effective performance for a share trader in a brokerage firm since this type of job demands rapid decision making. The same holds true for the entrepreneur.[55] On the other hand, this personality characteristic might prove a major obstacle to accountants performing auditing activities, which might be better done by someone with a low risk-taking propensity.

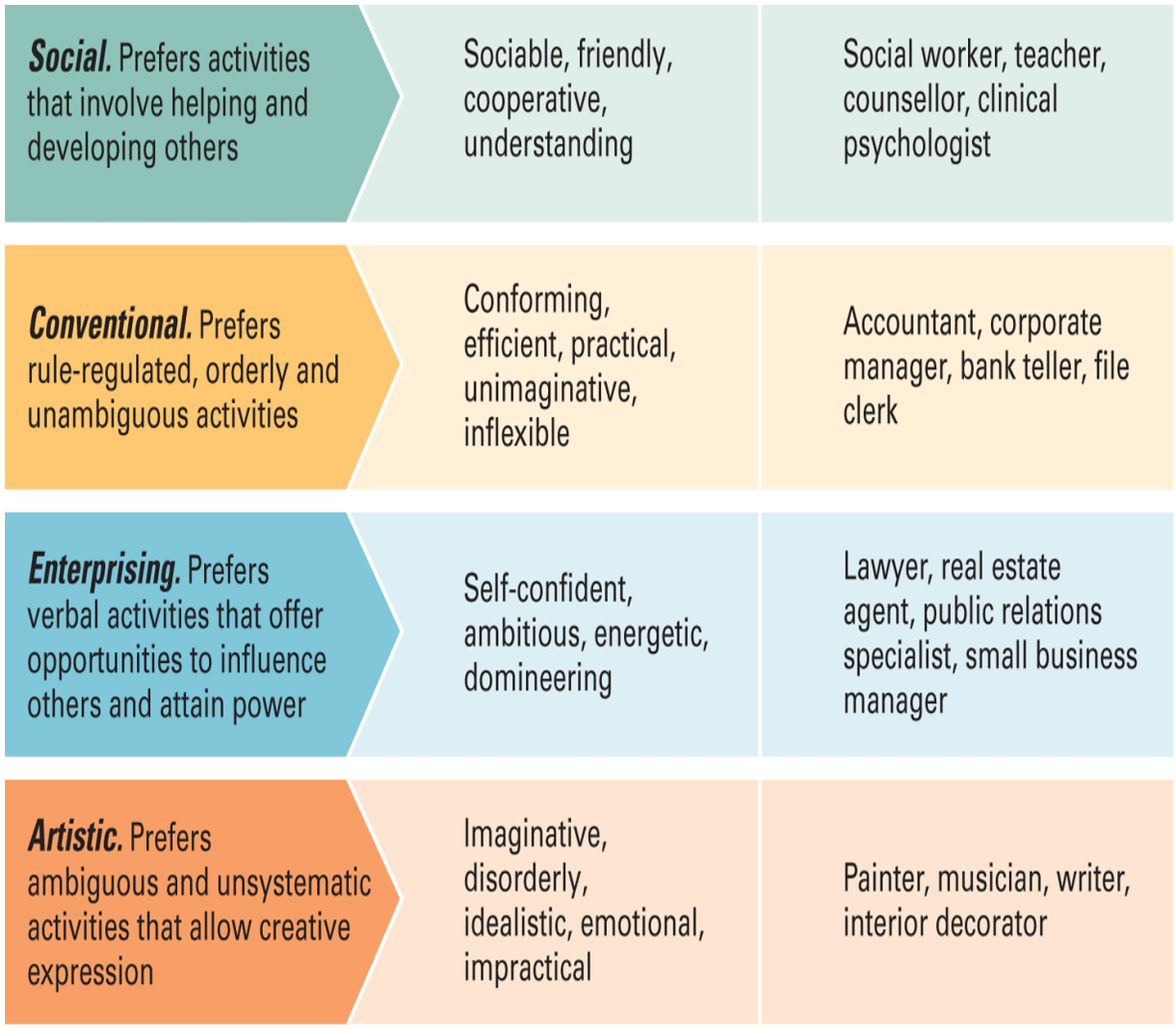
How do we match personalities and jobs?

> We all want a job that **fits our personality**.

As you do your job day-by-day, you may realise that your tasks don't mesh well with your personality or talents. Is it worth trying to improve that fit? According to psychologist John Holland, the answer is 'yes'.[56] His theory of personality–job fit states that an employee's satisfaction with their job, as well as their likelihood of leaving that job, depends on the degree to which their personality matches the job environment. Holland identified six basic personality types, as shown in **Figure 11.2**.

Figure 11.2 Holland's personality-job fit





Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 444. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

Holland's theory proposes that satisfaction is highest and turnover lowest when personality and occupation are compatible.[57] Social individuals should be in 'people'-type jobs, artistic people should be in creative jobs, and so on. The key points of this theory include the following: (1) there do appear to be intrinsic differences in personality among individuals; (2) there are different types of jobs; and (3) people in job environments compatible with their personality types

should be more satisfied and less likely to resign voluntarily than people in incongruent jobs.

Personality–job fit theory predicts people find it easier and more satisfying to work in jobs where performance requirements match their personality. For instance, an extroverted person would likely prefer a job involving lots of social contact, and a conscientious person would be well-suited to a role in which attention to detail is important.

fizkes/Shutterstock.com

Do personality attributes differ across cultures?

Do personality frameworks such as the Big Five model transfer across cultures? Are dimensions such as locus of control relevant in all cultures? Let's try to answer these questions.

The five personality factors studied in the Big Five model appear in almost all cross-cultural studies.[58] A wide variety of diverse cultures, such as China, Israel, Germany, Japan, Spain, Nigeria, Norway, Pakistan and the United States, have been the setting for these studies. Differences are found in the emphasis on dimensions. For example, a study of 17,000 people from 56 different nations found that people from Japan and Argentina had the highest average scores for neuroticism, while people from Jordan and the Democratic Republic of Congo had the highest average scores for agreeableness.[59] But a surprisingly high amount of agreement is found, especially among individuals from developed countries. As a case in point, a comprehensive review of studies covering people from the European Community found that conscientiousness was a valid predictor of performance across jobs and occupational groups.[60] US studies have found the same results. Australian research has also found that conscientiousness has a positive

influence on wage levels, creating a wage advantage for people on both high and low incomes.[61]

While we can find examples of particular personality types in any country, a country's culture does influence the *dominant* personality characteristics of its people. In fact, when Geert Hofstede was first conceptualising his dimensions of national culture (see the chapter on the external organisational environment) he developed his ideas from personality theories. We can see the parallels between individual personality and national culture by looking at locus of control.

National cultures differ in the degree to which people believe they control their environment. For example, North Americans and Australians believe that they can dominate their environment; other societies, such as those in Middle Eastern countries, believe that life is essentially predetermined by larger forces. Notice how closely this distinction parallels the concept of internal and external locus of control. We shouldn't be surprised, then, to find that in the US and Australian workforces, people with an internal locus of control tend to be successful because their self-belief aligns with their cultural environment.

How can an understanding of personality help managers be more effective?

Managers should be interested in their employees' personalities because those personalities influence their behaviour in the following ways:

- **Job–person compatibility.** Some 62 per cent of companies are using personality tests when recruiting and hiring.[62] That's where the main value in understanding personality differences probably lies. Managers are likely to have higher-performing and more-satisfied employees if consideration is given to matching personalities with jobs.
- **Understanding different approaches to work.** By recognising that people approach problem solving, decision making and job interactions differently, a manager can better understand why, for example, an employee is uncomfortable with making quick decisions or may insist on gathering as much information as possible before addressing a problem. For example, managers can expect that individuals with an external locus of control may be less willing to accept responsibility for their actions.
- **Being a better manager.** Being a successful manager and accomplishing goals means working well together with others both

inside and outside the organisation. In order to work effectively together, you need to understand each other. This understanding comes, at least in part, from an appreciation of personality traits and emotions. Also, one of the skills you have to develop as a manager is learning to fine-tune your emotional reactions according to the situation. In other words, you have to learn to recognise when ‘you have to smile and when you have to bark’.[63]

What is perception, and what factors influence it?

Learning outcome 11.4 Describe perception and the factors that influence it.

> We **interpret** what we see and **call it reality**.

‘L ke y ur b ain, the n w L nd Rov r autom tic lly adj sts to anyth ng.’[64] This advertisement for a Land Rover illustrates the perceptual process at work. You were likely able to read the sentence even with the missing letters because you recognised the word patterns and organised and interpreted them in a way that made sense.

Perception is a process by which we give meaning to our environment by organising and interpreting sensory impressions. Research on perception consistently demonstrates that individuals may look at the same thing yet perceive it differently. One manager, for example, can interpret the fact that her assistant regularly takes several days to make important decisions as evidence that the assistant is slow, disorganised and afraid to make decisions. Another manager with the same assistant might interpret the same tendency as evidence that the assistant is thoughtful, thorough and deliberate. The first manager would probably evaluate her assistant negatively; the second manager would probably evaluate the person positively. The point is that none of us see reality. *We interpret what we see and*

call it reality. And, of course, as the example shows, we behave according to our perceptions.

perception

A process by which we give meaning to our environment by organising and interpreting sensory impressions

What influences perception?

A number of factors operate to shape and sometimes distort perception. These factors can reside in the perceiver, in the object or target being perceived, or in the context of the situation in which the perception is made.

- When an individual looks at a target and attempts to interpret what they see, that individual's personal characteristics will heavily influence the interpretation. These personal characteristics include attitudes, personality, motives, interests, past experiences and expectations.
- The characteristics of the target being observed can also affect what is perceived. Loud people are more likely than quiet people to be noticed in a group. So, too, are extremely attractive or unattractive individuals. Because targets aren't looked at in isolation, the relationship of a target to its background also influences perception (see **Figure 11.3** for an example), as does our tendency to group close things and similar things together.

  Figure 11.3 Perceptual challenges: What do you see?

Old woman or young woman? Two faces or an urn? A knight on a horse?

- The context in which we see objects or events is also important. The time at which an object or event is seen can influence attention, as can location, lighting, temperature and any number of other situational factors.

How do managers judge employees?

Much of the research on perception is directed at inanimate objects. Managers, though, are more concerned with people. Our perceptions of people differ from our perceptions of such inanimate objects as computers, robots or buildings because we make inferences about the actions of people that we don't, of course, make about inanimate objects. When we observe people, we attempt to develop explanations of why they behave in certain ways. Our perception and judgment of a person's actions, therefore, will be significantly influenced by the assumptions we make about their internal state. Many of these assumptions have led researchers to develop attribution theory.

What is attribution theory?

Attribution theory has been proposed to explain how we judge people differently depending on what meaning we attribute to a given behaviour.[65] Basically, the theory suggests that when we observe an individual's behaviour, we attempt to determine whether it was internally or externally caused. *Internally caused behaviour* is believed to be under the control of the individual. *Externally caused behaviour* results from outside causes; that is, the person is seen as having been forced into the behaviour by the situation. That determination, however, depends on three factors: distinctiveness, consensus and consistency.

- *Distinctiveness* refers to whether an individual displays a behaviour in many situations or whether it is particular to one situation. Is the employee who arrived late to work today also the

person co-workers see as lazy? What we want to know is whether this behaviour is unusual. If it is, the observer is likely to give the behaviour an external attribution. If this action isn't unique, it will probably be judged as internal.

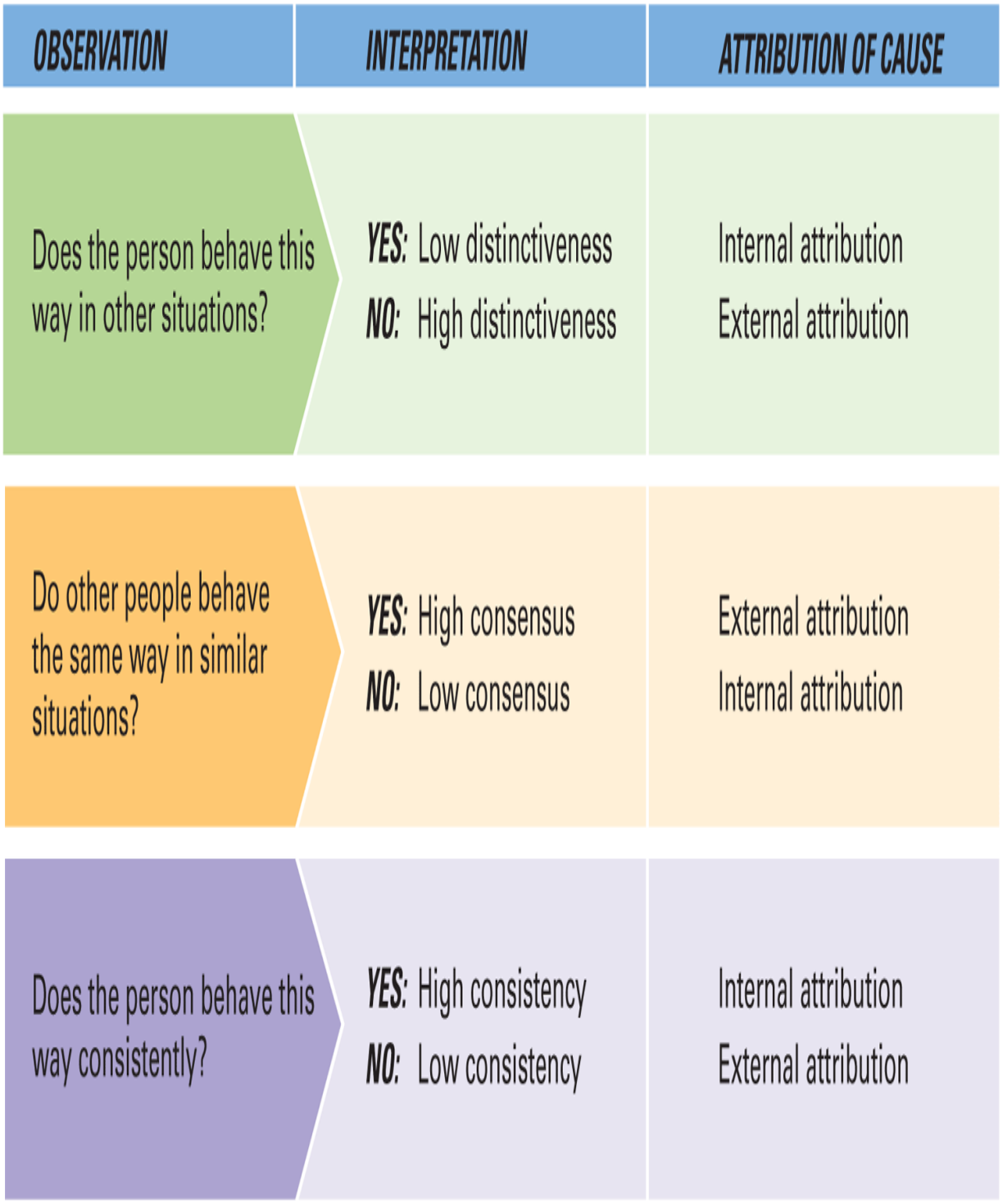
- If everyone who is faced with a similar situation responds in the same way, we can say the behaviour shows *consensus.* Our tardy employee's behaviour would meet this criterion if all employees who took the same route to work today were also late. If consensus is high, you would be expected to give an external attribution to the employee's tardiness, whereas if other employees who took the same route made it to work on time, you would conclude the reason to be internal.
- Finally, a manager looks for *consistency* in an employee's actions. Does the individual engage in the behaviours regularly and consistently? Does the employee respond the same way over time? Coming in 10 minutes late for work isn't perceived in the same way if, for one employee, it represents an unusual case (she hasn't been late for several months), but for another it's part of a routine pattern (he is late two or three times a week). The more consistent the behaviour, the more the observer is inclined to attribute it to internal causes.

attribution theory

A theory used to explain how we judge people differently, based on what meaning we attribute to a given behaviour

Figure 11.4 summarises the key elements in attribution theory. It would tell us, for example, that if an employee, Micah, generally performs at about the same level on other related tasks as they does on their current task (low distinctiveness), if other employees frequently perform differently – better or worse – than Micah does on that current task (low consensus), and if Micah's performance on this current task is consistent over time (high consistency), their manager or anyone else who is judging Micah's work is likely to hold them primarily responsible for their task performance (internal attribution).

Figure 11.4 Attribution theory



Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 447. Reprinted and electronically reproduced by permission of Pearson Education, Inc., New York.

Can attributions be distorted?

One of the more interesting findings drawn from attribution theory is that errors or biases distort attributions. For example, substantial evidence supports the hypothesis that when we make judgments about the behaviour of other people, we have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors.[66] This **fundamental attribution error** can explain why a sales manager may be prone to attribute the poor performance of their sales agents to laziness rather than to the innovative product line introduced by a competitor. Individuals also tend to attribute their own successes to internal factors such as ability or effort while putting the blame for failure on external factors such as luck (or an 'unfair' test). This **self-serving bias** suggests that feedback provided to employees in performance reviews will be predictably distorted by them, whether it is positive or negative.

fundamental attribution error

The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behaviour of others

self-serving bias

The tendency for individuals to attribute their successes to internal factors while putting the blame for failures on external factors

What perceptual shortcuts do we use?

All of us, managers included, use a number of shortcuts to judge others. Perceiving and interpreting people's behaviour is a lot of work, so we use shortcuts to make the task more manageable.[67] Such shortcuts can be valuable when they let us make accurate perceptions quickly and provide valid data for making predictions. However, they aren't perfect. They can and do get us into trouble. What are these perceptual shortcuts? (See **Table 11.2** for a summary.)

Table 11.2 Perceptual shortcuts

Individuals can't assimilate all they observe, so they're selective in their perception. They absorb bits and pieces. These bits and pieces aren't chosen randomly; rather, they're selectively chosen depending on the interests, background, experience and attitudes of the observer. **Selective perception** allows us to 'speed read' others but not without the risk of drawing an inaccurate picture.

Stephani
Terri - Lig
Louise - H
Christine
Jessica -
Kylie - Ga
Donna - M
Sal - Locks
Sam - Elec
Bec - Elect
Taryn - Sig
Erin - Mech
Meagan - C
Marty - Elec
Danielle - El
Des - Welde
Rosa - Carpe
Fi
real skills for
real careers

Many stereotypes exist about ‘male’ occupations and professions. But according to Fiona Shewring, founder of Supporting And Linking Tradeswomen (SALT), ‘jobs do not have a gender’.[68] SALT is a support network for women who wish to enter trades such as carpentry, plumbing and building. It provides free skills workshops, and delivers talks in schools to promote awareness of trade-based career options.

Supporting and Linking Tradeswomen (SALT)

selective perception

Selectively perceiving or hearing a communication based on your own needs, motivations, experiences or other personal characteristics

It’s easy to judge others if we assume that they’re similar to us. In **assumed similarity**, or the ‘like me’ effect, the observer’s perception of others is influenced more by the observer’s own characteristics than by those of the person observed. For example, if you want challenges and responsibility in your job, you’ll assume that others want the same. People who assume that others are like them can, of course, be right, but not always.

assumed similarity

An observer's perception of others influenced more by the observer's own characteristics than by those of the person observed

When we judge someone on the basis of our perception of a group they are part of, we're using the shortcut called **stereotyping**. For example, 'Married people are more stable employees than single persons' or 'Older employees are absent more often from work' are examples of stereotyping. To the degree that a stereotype is based on fact, it may produce accurate judgments. However, many stereotypes aren't factual and distort our judgment.

stereotyping

When we judge someone on the basis of our perception of a group to which that person belongs

When we form a general impression about a person on the basis of a single characteristic, such as intelligence, sociability or appearance, we're being influenced by the **halo effect**. This effect frequently occurs when students evaluate their classroom instructor. Students

may isolate a single trait such as enthusiasm and allow their entire evaluation to be slanted by the perception of this one trait. If an instructor who is quiet, assured, knowledgeable and highly qualified has a classroom teaching style that lacks enthusiasm, that instructor might be rated lower on a number of other characteristics.

halo effect

When we form a general impression of a person on the basis of a single characteristic

Perceptual shortcuts can be valuable when they help us make quick and accurate perceptions and provide valid data for making predictions.[69] However, they can be highly problematic when they lead us to make invalid assumptions and distort our judgment. Perceptual shortcuts can cause us to form biased impressions of people, mistakenly assume what others want and generate inaccurate expectations. For this reason, when dealing with a diverse workforce, managers (and others) first have to be aware of when they're using a perceptual shortcut. They then have to ensure that the shortcut isn't distorting what they're perceiving – and thus believing – about an individual or a situation.

How can an understanding of perception help managers be more effective?

Managers should be interested in perception because it helps them understand employee behaviour in the following ways:

- Managers need to recognise that their employees react to perceptions, not to reality. So, whether a manager's appraisal of an employee's performance is actually objective and unbiased, or whether the organisation's wage levels are among the highest in the community, is less relevant than what employees perceive them to be. If individuals perceive appraisals to be biased or wage levels as low, they'll behave as if those conditions actually exist.
- Employees organise and interpret what they see, so there is always the potential for perceptual distortion. The message is clear: pay close attention to how employees perceive both their jobs and management actions. Remember: the valuable employee who quits because of an inaccurate perception is just as great a loss to an organisation as the valuable employee who quits for a valid reason.

Managing for diversity and inclusion: Being a more inclusive person

> Inclusiveness stems from respecting and valuing differences in people's perspectives, skills and abilities. It's about seeing and appreciating the unique and valuable qualities that each individual brings to a situation. That takes four particular interpersonal qualities: understanding, empathy, tolerance and communication.[70]
>
> Cultural, physical and other differences can cause people to behave in different ways. Understanding and accepting these differences is the first part of creating an inclusive work environment. Encouraging others to do the same helps even more to create a positive diversity climate where differences are respected and valued.
>
> Empathy is closely related to understanding and stems from understanding others' perspectives. Put yourself in their place and encourage others to empathise as well. For example, suppose a new team member joins a team that has worked together for a long time. The team can make their new colleague feel more welcome and comfortable by identifying with how they might feel. Are they excited or disappointed

about their new work assignment? What were their previous work experiences? How can the team help them feel more comfortable? By empathising, existing team members can work together better as an effective group.

Tolerance is another important interpersonal consideration. Just because you understand that people are different and you empathise with them doesn't mean that it's any easier to accept different perspectives or behaviours. But it's important to be tolerant and open-minded about different values, attitudes and behaviours.

Finally, open and two-way communication is important to managing a diverse team. Diversity problems may intensify if people are afraid or unwilling to openly discuss issues that concern them. If a person wants to know whether a certain behaviour is offensive to someone else, it's best to ask. Likewise, a person who is offended by another's behaviour should explain their concerns and ask that person to stop. Such communication exchanges can be positive when they're handled in a non-threatening, low-key and friendly manner.

How do learning theories explain behaviour?

> Learning outcome 11.5 Discuss learning theories and their relevance in shaping behaviour.

The last individual behaviour concept we're going to look at is learning. Since almost all behaviour is learnt, we need to understand how people learn if we want to explain, predict and influence behaviour. **Learning** is any relatively permanent change in behaviour that occurs as a result of experience. Two learning theories help us understand how and why individual behaviour occurs: operant conditioning and social learning.

learning

A relatively permanent change in behaviour that occurs as a result of experience

What is operant conditioning?

Operant conditioning argues that behaviour is a function of its consequences. People learn to behave in ways to get something they want or to avoid something they don't want. Operant conditioning proposes that people will most likely engage in desired behaviours if they are positively reinforced for doing so, and rewards are most effective if they immediately follow the desired response. Behaviour that isn't rewarded or is punished is less likely to be repeated. This means that the linkage between behaviour and reinforcement can also result in people learning to behave in ways that work against the best interests of the organisation. Assume that your boss tells you that if you work overtime during the upcoming three-week busy season, you'll be rewarded with a very positive evaluation in your next performance appraisal. However, when performance appraisal time comes, your boss omits to praise you for pitching in and helping out when needed, so your extra effort isn't positively reinforced. As a result, the next time your boss asks you to work overtime, you'll probably refuse because if a behaviour isn't positively reinforced, it's less likely to be repeated.

operant conditioning

A theory of learning that says behaviour is a function of its consequences

What is social learning theory?

In addition to learning through direct experience, individuals also learn by observing what happens to other people or just by being told about something. Much of what we have learnt comes from watching others (models): parents, teachers, peers, television and movie actors, managers and so forth. This view that we can learn both through observation and direct experience is called **social learning theory**.[71]

> ***social learning theory***
> A theory of learning that says people can learn through observation and direct experience

Social learning theory proposes that four processes determine the amount of influence that others have on an individual:

- **Attentional processes.** People learn from a model when they recognise and pay attention to its critical features. We're most influenced by models who are attractive, repeatedly available, thought to be important or seen as similar to us.

- **Retention processes.** A model's influence will depend on how well the individual remembers the model's action, even after the model is no longer readily available.
- **Motor reproduction processes.** After a person has seen a new behaviour by observing the model, the watching must become doing. This process then demonstrates that the individual can actually do the modelled activities.
- **Reinforcement processes.** Individuals will be motivated to exhibit the modelled behaviour if positive incentives or rewards are provided. Behaviours that are reinforced will be given more attention, learnt better and performed more often.

This training demonstration for apprentice hairstylists demonstrates how social learning theory is applied in the workplace. Apprentices observe an experienced hairstylist using a particular cutting technique and then replicate the stylist's actions. Knowing they will be required to apply the technique motivates apprentices to pay attention and observe closely. Immediately replicating the technique helps to reinforce and reward their learning.

fizkes/Shutterstock.com

Classic concepts in today's organisations: Want to know how to shape someone's behaviour?

Harvard psychologist B. F. Skinner first identified the process of operant conditioning and his research widely expanded our knowledge of it.[72] He argued that creating pleasing consequences to follow specific forms of behaviour would increase the frequency of that behaviour. Skinner demonstrated that people will most likely engage in desired behaviours if they're positively reinforced for doing so, that rewards are most effective if they immediately follow the desired response (behaviour), and that behaviour that isn't rewarded or is punished is less likely to be repeated. For example, a lecturer places a mark by a student's name each time the student makes a contribution to class discussions. Operant conditioning would argue that this practice is motivating because it conditions a student to expect a reward (earning class credit) each time they demonstrate a specific behaviour (speaking up in class). Operant conditioning can be seen in work settings as well. And smart managers quickly recognise that they can use operant conditioning to shape

employees' behaviours to get work done in the most effective and efficient manner possible.

Discuss this

- How do classical conditioning and operant conditioning differ?
- What ethical concerns might arise in 'shaping' someone's behaviour?

How can managers shape behaviour?

Managers should be concerned with how they can teach employees to behave in ways that most benefit the organisation.[73] Thus, managers will often attempt to mould individuals by guiding their learning in graduated steps. This process is called **shaping behaviour**.

> ***shaping behaviour***
>
> The process of guiding learning in graduated steps, using reinforcement or lack of reinforcement

Managers can shape behaviour using four strategies: positive reinforcement, negative reinforcement, punishment or extinction. When a response is followed with something pleasant, such as when a manager praises an employee for a job well done, it's called *positive reinforcement*. Rewarding a response with the termination or withdrawal of something pleasant is called *negative reinforcement*. Managers who habitually criticise their employees for taking extended

coffee breaks are using negative reinforcement. The only way these employees can stop the criticism is to shorten their breaks. *Punishment* penalises undesirable behaviour. Suspending an employee for two days without pay for showing up drunk is an example of punishment. Eliminating any reinforcement that is maintaining a behaviour is called *extinction*. When a behaviour isn't reinforced, it gradually disappears. Managers who wish to discourage employees from continually asking distracting or irrelevant questions in meetings can eliminate that behaviour by ignoring those employees when they raise their hands to speak. Soon, the behaviour will be diminished.

Both positive and negative reinforcement result in learning. They strengthen a desired response and increase the probability of repetition. We shape behaviour by systematically reinforcing each successive step that moves the individual closer to the desired response. If an employee who has continually been 30 minutes late for work arrives only 20 minutes late, we can reinforce this improvement. Reinforcement would increase as responses more closely approximate the desired behaviour. Both punishment and extinction also result in learning; however, they weaken behaviour and tend to decrease its subsequent frequency.

How can an understanding of learning help managers be more effective?

Employees are going to learn on the job. The only issue is whether managers will manage their learning through the rewards they allocate and the examples they set, or allow it to occur haphazardly. If managers want behaviour A, but reward behaviour B, they shouldn't be surprised to find employees learning to engage in behaviour B. We talk more in the chapter on motivating and rewarding employees about how managers can use rewards to influence this type of employee learning. The point we're making here is that what managers intend employees to learn, and what employees *actually* learn, may be two different things. Managers should also expect that employees will look to them as models. So, managers who are consistently late to work, take two hours for lunch or help themselves to company office supplies for personal use should expect employees to read the message they are sending and model their behaviour accordingly.

What contemporary OB issues do managers face?

Learning outcome 11.6 Discuss contemporary issues in OB.

By this point, you're probably well aware of why managers need to understand how and why employees behave the way they do. We conclude this chapter by looking at three OB issues that are having a major influence on managers' jobs today.

How do generational differences affect the workplace?

In today's workplaces, Baby Boomers, Generation X, Generation Y/Millennials and Generation Z are working side-by-side.[74] Anecdotal and empirical evidence suggests that members of these generational groups have significantly different attitudes on a range of work-related issues, including communication, uses of technology, work/life balance and preferred leadership styles. Attitudinal differences can cause conflicts and resentment to arise, making it important for managers to help staff understand the causes and consequences of different perspectives. Differing priorities and preferences mean managers need to be flexible and accommodating about work and work arrangements but also ensure equity and fairness. These challenges make it important to understand how the generational groups differ and how generational differences can be managed.

What are the generational groups?

Members of each generation develop their perspectives, attitudes and behaviours about work influenced by their educational environment, their family situation, and the cultural, social, economic and political conditions that they experienced at the time their impressions were being formed. Common experiences cause

members of the generational group to develop similar attitudes, which then distinguish them from members of other generational groups. Each generational group has a lot to offer organisations in terms of their knowledge, passion and abilities. Managers, however, have to recognise and understand the behaviours of each group in order to create an environment in which work can be accomplished efficiently, effectively and without disruptive conflict.

Baby Boomers, born between 1943 and 1960, grew up post–World War II in relative prosperity and safety but have experienced significant social and technological change over their lifetime. Boomers pushed the working week from 40 hours up to 60 to 70 hours per week, making work a defining and central part of their life. For many, transitioning into retirement and away from their work-related identities and roles is a major and challenging adjustment.

Generation X, born between 1961 and 1981, grew up as the children of divorce and single-parent Boomer families, meaning many Gen Xers were raised as ‘latch-key’ kids whose parents worked outside the home. Consequently, Gen Xers tend to be very independent, adaptable and resilient but also may feel overlooked and unappreciated. The first generation to use personal computers, they are technologically savvy; however, having grown up during the AIDS epidemic and experienced numerous boom-and-bust economic cycles such as the global financial crisis in 2008–9, they also tend to be cynical and are quick to question authority. They see job instability as part of employment and also tend to prioritise family over work.

Generation Y (also called Millennials), born between 1982 and 1995, are highly educated, widely travelled and very technologically sophisticated. Having grown up with the internet, mobile phones and DVDs, they are very comfortable using and communicating with technology. They value work opportunities for creativity and personal growth, and like to have strong personal connections to their immediate boss. However, they also see employment as a contract rather than a vocation and will sacrifice income and promotion for better work/life balance.

Generation Z, born between 1996 and 2010, are growing up in a fairly prosperous period of history and are characterised as being open to experiences, inclusive, and focused on the purpose and meaning of their work. Generation Z have grown up with individually customised technology such as smartphones and social media, so they are used to finding and processing new information very quickly and easily. Broadly speaking, they also tend to be sensitive to the long-term consequences of their actions, making less risky life choices and prioritising work opportunities with social impact and with employers whose values match their own.

Managerial challenges

Managing generational differences presents some unique challenges. Conflicts and resentment can arise from different concepts of ‘professionalism’ and ideas about what constitutes ‘appropriate’ presentation (e.g. through dress, appearance and language), communication style (e.g. media used, forms of address, timeliness

and comprehensiveness), work ethic and time management (e.g. managing deadlines, face time, time off, flexibility and spending office time on personal activities), and managerial style.

There are several approaches that managers can use to accommodate generational differences in their workplace. First, managers can review traditional assumptions and ways of working. For example, reviewing assumptions about when face time is and isn't necessary might shift the organisation's focus from where work is done to the results that are produced, creating more flexibility for all employees to determine where and how they do their jobs. Second, managers can help employees learn what is expected and appropriate by articulating expectations during orientation training and by teaching staff how to read and adapt to different behavioural and communication styles. Third, managers can help employees understand and appreciate the contributions that each generation can make. For example, arranging a regular weekly meeting at which staff can contribute ideas, ask questions and get answers signals to Gen Xers, Ys and Zs that they are being listened to and taken seriously and helps Boomers understand the insights that younger generations can offer. Ongoing opportunities to communicate and learn from one another will build greater awareness, understanding and appreciation of other generational groups.

Rethinking management in a global crisis: Getting to know you . . .

As the COVID-19 pandemic spread, the threat posed by the virus, the risks it posed to people and the options available to them for dealing with it were greatly affected by individual circumstances. This meant that as people adapted to the need to protect themselves and those around them from contracting the virus, managers and employees found themselves learning a lot more about each other. Issues that would normally have been considered part of people's private and personal lives (and none of their employer's business) now became known to their managers and colleagues. For instance, when workplace attendance restrictions were first implemented for people for whom the virus posed high risks, the health conditions of employees and their family members suddenly became workplace-relevant information as it affected people's capacity to come in to their workplace. Likewise, travel and socialising behaviour became necessary to disclose when it necessitated self-isolation due to risks of virus transmission. Learning about each other in these ways forced both managers and employees to adjust to new boundaries between their personal and professional lives. This included dealing with sensitivities and vulnerabilities people might feel with their personal lives becoming more exposed to people they worked with. But it also

provided opportunities for people to learn more about those they worked with (or for), the context in which they were working and the challenges they faced.

How do ability, disability and mental health affect the workplace?

As we mentioned when discussing the external organisational environment, one in five people in Australia have some type of disability. A disability is defined as any condition that restricts a person's mental, sensory or mobility functions.[75] In Australia, 2.1 million people of working age (15–64 years) have a disability. Over 1 million of these people are employed, and another 115,000 are looking for work. Around 34 per cent of people with disability are managers or professional workers. One of the largest barriers to workforce participation experienced by people with disability is discrimination and misconceptions about what they can and cannot do in the workplace. Estimates are that if disability discrimination in Australia could be overcome, this could add $43 billion to Australia's GDP over 10 years.[76]

Almost 80 per cent of people with disability are affected by physical health issues, such as back problems, hearing loss or vision impairment. For example, one in six Australians has some degree of hearing loss, and around 360,000 people have no or low vision. An estimated 10 per cent of the population has dyslexia, which is a neurobiological condition that affects the way the brain processes

words and manifests as difficulties with reading, writing and spelling.[77] Around half the people who have a disability use aids such as hearing aids, wheelchairs, glasses, screen magnifiers or talk-to-text computer software.

As we have discussed elsewhere in this text, managers and organisations have legal responsibilities for supporting and accommodating people in the workplace who experience physical and mental health issues. But there are also a range of moral and ethical reasons to do this, including respect for people's rights to personal freedom, dignity and equal opportunity. There are a variety of ways this can be done. One of the most important is to foster workplace cultures and attitudes that foster inclusion and acceptance and equal treatment for all employees. For example, disability etiquette and awareness training can help employees understand how to act around a person with a disability and remove some of the fear and stigma that might otherwise occur.[78] Another way is to normalise inclusive and respectful behaviour. For example, when working with a person who uses a wheelchair or crutches it is polite and respectful to sit down when speaking to them so that you are at their eye level and addressing them from an equal height.[79] But as with other forms of diversity, arguably the most powerful and effective way is to provide opportunities for employees to develop experience of working with differently abled colleagues. One benefit of this approach is that it helps employees and managers check their assumptions about what others can do and cannot do, and develop new insights about the capabilities and strengths that people bring to the workplace. EY, the global financial company, learnt this lesson when it began a pilot

program employing people with autism as account support associates. The company found that its neurodiverse employees had much better work quality, productivity and efficiency than its neurotypical colleagues.[80] Moreover, it was able to spot patterns and anomalies in documents, data and processes it used to develop new efficiencies and innovations. One autistic employee managed to streamline a major training process so it could be delivered in half the time! The company also found that the experience of overseeing employees with autism helped its supervisors to become better managers and develop inclusive leadership skills. For example, as autistic people tend to interpret information and directions literally, managers learnt to communicate more clearly and directly and to be more logical in the ways they documented instructions and information.

Mental health issues such as depression, anxiety and post-traumatic stress disorder can also affect people's behaviour in the workplace and have become a huge issue for managers and organisations.[81] In Australia, one in five people are dealing with a mental health issue. Depression is the leading cause of disability, costing $1 trillion in lost productivity. Depression is a serious illness that can result from physical health problems, bereavement, relationship conflict, prolonged workplace stress or genetic predisposition. People with depression may lose interest in doing things they normally enjoy, feel irritable, lack energy and find it hard to concentrate, have difficulty sleeping or sleep more than usual. In the workplace, a person with depression might become socially withdrawn, less confident or productive, less motivated and less resilient. Medication, counselling

and exercise can all be used to successfully treat depression, but every case is different and there is no ‘magic cure’.

There is still a lot of work to do to overcome misconceptions about mental health and stigmatisation of people who have mental health issues. Perceptions still exist that people with depression are ‘just letting things get on top of them’ and can and should ‘just snap out of it’. Another challenge is that some managers believe that workplace mental health is ‘not our problem’, either because they don’t believe they *have* any employees with mental health issues, or because they believe it’s not any of the organisation’s business. This may partly be because people who have a mental health condition are reluctant to disclose it in their workplace for fear they will be stigmatised or discriminated against. Many organisations and managers also feel under-confident and under-prepared to handle mental health issues in the workplace.[82] One study found that although 70 per cent of organisational leaders have worked with or supervised an employee who was experiencing depression, only 25 per cent of managers had received any mental health training from their employer, and only 33 per cent worked in an organisation that had a clear policy on mental health.[83]

The good news is that the situation is starting to improve. Research by PricewaterhouseCoopers shows that every $1 invested in developing more mentally healthy workplaces produces a 230 per cent return on that investment.[84] Supporting mental health in the workplace can produce significant benefits in workplace morale, turnover, reductions in sick leave and stress-related injuries, as well

as making employees happier and more committed. Some organisations, such as NSW Fire and Rescue, have used workplace champions to promote mental health, change workplace attitudes, and encourage employees to look after themselves and each other. Outdoors Inc., for example, has found that opening up communication about mental health issues has helped employees realise they don't need to 'keep it to themselves' and can raise concerns before they become a problem.

How do managers deal with bullying in the workplace?

Bullying behaviour – whether it occurs in school, online or in the workplace – profoundly affects people's physical, emotional and psychological wellbeing.[85] Australian legislation defines workplace bullying as unreasonable behaviour towards a person or group of people that creates a risk to health and safety.[86] Examples of bullying behaviour include direct physical bullying (physical intimidation, practical jokes), direct verbal bullying (name-calling, shouting, accusing), relational aggression (manipulating social relationships to inflict pain, such as by gossiping, rumour spreading or excluding from a group), scapegoating (drawing attention to a victim to reduce attention on the bully for a failure of the group), sexual harassment, increasing work pressure and/or load, and destabilising the workplace by failing to credit the individual for their successes or setting up the individual for failure. Bullying behaviour is intended to cause the victim some kind of pain or personal distress by socially isolating and ostracising them. Consequently, bullies are likely to target people who have low power in their workplace, such as members of minority groups and lower-paid workers.

Bullying is a widespread and serious problem.[87] In Australia, a survey of 6,500 workers found that one in four respondents had been bullied

or discriminated against in the previous two years and 44 per cent had witnessed others being bullied.[88] Victims of bullying can experience a range of physical and mental health problems, including reduced self-esteem, stress, depression, phobias and sleep disturbances. Organisational consequences of bullying include increased absenteeism and likelihood of workplace accidents, disruption to work and lost productivity, potential legal action and damage to organisational reputation.

Bullying behaviour can be caused by a number of workplace factors, including stressful and chaotic work environments; high performance expectations; toxic, corrupt or unethical workplace cultures; and significant power differences in workplace relationships.[89] Managers may also contribute to workplace cultures in which bullying can flourish when they use unfair or 'hands off' leadership styles, ignore or reinforce low morale, or enable organisational cultures to be excessively informal or to promote aggressive behaviour.[90]

What can managers do to manage bullying in their organisations? By developing an organisational culture that defines, discourages and penalises bullying behaviour, managers can ensure that employees understand organisational norms for professional behaviour, distinguish 'right' from 'wrong', and don't tolerate bullying behaviours.[91]

Managers can do this by sending clear signals that bullying and disrespectful behaviour won't be tolerated.[92] This includes modelling respectful behaviours towards all staff, treating allegations about

bullying seriously and investigating them carefully, dealing with unreasonable and disrespectful behaviour as soon as it is brought to their attention, and intervening when they see problematic behaviour occurring. They can promote productive and respectful workplace relationships by demonstrating positive leadership, and by ensuring that people understand what kinds of behaviour constitute 'bullying' and 'harassment'. Implementing clear policies and procedures about reporting and responding to bullying behaviour will help to ensure that people do report bullying when it occurs, and will also reinforce the message that bullying won't be tolerated. Providing information in a variety of forms and formats, including multiple languages, helps ensure that *all* staff understand what bullying is and how it should be handled.

When responding to allegations of workplace bullying, managers should use the following principles:[93]

- Act promptly, and let the parties involved know how long it will take to respond to the reported behaviour.
- Treat all reports seriously, and assess them based on the facts.
- Maintain the confidentiality of everyone involved.
- Ensure procedural fairness and don't victimise the person reporting the bullying. Listen respectfully to them and treat them as credible, but also ensure that the person alleged to have bullied others is treated as innocent until proved guilty.
- Be neutral and impartial to everyone involved, and ensure that whoever is investigating the matter has no personal or professional bias in it.

- Communicate the process and outcomes to everyone involved, and explain the reasons for any actions taken or not taken.
- Keep records of everything done to investigate the matter.

As with any other workplace issue, the resources and control systems put in place to manage workplace bullying need to be regularly monitored and reviewed to ensure that they are actually working. If managers find, for example, that bullying behaviour is still occurring, or is still not being reported, then it’s time to find out why change hasn’t occurred.

Review

Chapter 11 summary

11.1 Identify the focus and goals of organisational behaviour (OB). OB focuses on three areas: individual behaviour, group behaviour and organisational aspects. The goals of OB are to explain, predict and influence employee behaviour. Six important employee behaviours are as follows: Employee productivity is a performance measure of both efficiency and effectiveness.

Absenteeism is the failure to report to work. Turnover is the voluntary and involuntary permanent withdrawal from an organisation. Organisational citizenship behaviour (OCB) is discretionary behaviour that's not part of an employee's formal job requirements, but it promotes the effective functioning of an organisation. Job satisfaction is an individual's general attitude towards their job. Workplace misbehaviour is any intentional employee behaviour that's potentially harmful to the organisation or individuals within the organisation.

11.2 Explain the role that attitudes play in job performance. Attitudes are evaluative statements concerning people, objects or events. The cognitive component of an attitude refers to the beliefs, opinions, knowledge or information held by a person. The affective component is the emotional or feeling part of an attitude. The behavioural component refers to an intention to behave in a certain way towards someone or something.

Four job-related attitudes include job satisfaction, job involvement, organisational commitment and employee engagement. Job satisfaction is a person's general attitude towards their job. Job involvement is the degree to which an employee identifies with their job, actively participates in it, and considers their job performance to be important to their self-worth. Organisational commitment is the degree to which an employee identifies with a particular organisation and its goals and wishes to maintain membership in that organisation. Employee engagement is when employees are connected to, satisfied with and enthusiastic about their jobs.

According to cognitive dissonance theory, individuals try to reconcile attitude and behaviour inconsistencies by altering either their attitudes or their behaviour, or by rationalising the inconsistency.

11.3 Describe different personality theories.

The MBTI® measures four dimensions: social interaction, preference for gathering data, preference for decision making, and style of making decisions. The Big Five model consists of five personality traits: extraversion, agreeableness, conscientiousness, emotional stability and openness to experience. Another way to view personality is through the five personality traits that help explain individual behaviour in organisations: locus of control, Machiavellianism, self-esteem, self-monitoring and risk taking.

Finally, how a person responds emotionally and how they deal with their emotions is a function of personality. A person who is

emotionally intelligent has the ability to notice and to manage emotional cues and information.

11.4 Describe perception and the factors that influence it.
Perception is how we give meaning to our environment by organising and interpreting sensory impressions.

Attribution theory helps explain how we judge people differently. It depends on three factors. Distinctiveness is whether an individual displays different behaviours in different situations (i.e. whether the behaviour is unusual). Consensus is whether others facing a similar situation respond in the same way. Consistency is when a person engages in behaviours regularly and consistently. Whether these three factors are high or low helps managers determine whether employee behaviour is attributed to external or internal causes.

The fundamental attribution error is the tendency to underestimate the influence of external factors and overestimate the influence of internal factors. The self-serving bias is the tendency to attribute our own successes to internal factors and to put the blame for personal failure on external factors. Shortcuts used in judging others are selective perception, assumed similarity, stereotyping and the halo effect.

11.5 Discuss learning theories and their relevance in shaping behaviour.
Operant conditioning argues that behaviour is a function of its consequences. Social learning theory says that individuals learn by

observing what happens to other people and by directly experiencing something.

Managers can shape behaviour by using positive reinforcement (reinforcing a desired behaviour by giving something pleasant), negative reinforcement (reinforcing a desired response by withdrawing something unpleasant), punishment (eliminating undesirable behaviour by applying penalties) or extinction (not reinforcing a behaviour to eliminate it).

11.6 Discuss contemporary issues in OB.

The challenge of managing workers of different generations is that they bring new attitudes to the workplace. The main challenges arise from different concepts of professionalism regarding issues such as appearance, communication style and work practices.

Improving workplace inclusion, acceptance and equal treatment for differently abled individuals can be achieved by addressing misconceptions and stigmatisation about mental health and physical disability through awareness and etiquette training, checking assumptions about what others can do, and developing new insights about the capabilities and strengths that people bring to the workplace.

Bullying in the workplace can be dealt with by recognising that it’s not acceptable and by establishing a workplace culture that doesn’t tolerate bullying behaviour.

Discussion questions

11.1 Explain how each of the six goals of organisational behaviour are influenced by (a) individual behaviour, (b) group behaviour and (c) organisational aspects.
11.2 Does the importance of knowledge of OB differ based on a manager's level in the organisation? If so, how? If not, why not? Be specific.
11.3 Write down three attitudes you have. Identify the cognitive, affective and behavioural components of those attitudes.
11.4 Clarify how individuals reconcile inconsistencies between attitudes and behaviours.
11.5 Describe what is meant by the term *emotional intelligence*. If two team members got into a workplace conflict, how would you expect that a manager who is high in emotional intelligence would handle the situation? How would a manager who is low in emotional intelligence handle the situation?
11.6 'When times are tough, organisations don't need to worry about employee engagement: employees will work hard any way just to keep their jobs.' What's your reaction to this statement? Do you agree? Disagree? Why?
11.7 Imagine you are made responsible for establishing a zero-tolerance culture towards bullying in your workplace.

Which learning theory would you use to do this? How would you use it?

11.8 Describe the implications of social learning theory for managing people at work.

11.9 A Gallup Organization survey shows that most workers rate having a caring boss even higher than they value money. How should managers interpret this information? What are the implications?

11.10 Identify some strategies that manager can use when managing physical and mental disability in the workplace.

Management skills spotlight: Understanding employee emotions

Employees bring their emotions with them to work every day. Although managers would like to think that employees are always rational, they aren't. And any manager who deals with people by ignoring how emotions – such as fear, anger, love, hate, joy and grief – shape employees' day-to-day behaviour isn't likely to be very effective.

Experiential exercise

Social learning theory says that people learn through observation and direct experience. But what does it take to ensure that learning experience is successful? In this exercise you are going to complete a social learning experiment to determine what conditions help you engage in social learning.

1. Choose a dish or a food item that you would like to be able to make. It should be one you already know you enjoy (so you're motivated to learn how to make it) and one that suits your current level of cooking skills (so you have the best chance of being able to learn it).
2. Find a friend/housemate/family member who knows how to make it and ask them to teach you.
   Or
   Find a video demonstration online of how to make the dish.
3. Observe how to make the dish, then attempt to make it yourself. (You can either watch the demonstration and then make it, or make it as you follow along with the demonstration.)
4. Now reflect on your experiences.
    a. Describe what happened when you watched the demonstration and tried to replicate what you had seen done. How easy was it for you to copy what you had seen? What did you struggle with?

b. Interpret your experience. Social learning theory predicts that your learning would be influenced by attentional processes, retention processes, motor reproduction processes and reinforcement processes. (See the discussion of these earlier in the chapter.) Which of these do you think influenced your learning? How did they do that?
c. Evaluate your experience. Why do you think your learning experience was as successful (or unsuccessful) as it was? What factors influenced your experience?
d. How could you apply your insights in the future? What would you do differently next time you want to engage in this type of social learning experience?

Case application: A fighting chance at a fair go

‘What if social enterprises could change the game for people with a disability?’ That’s the question posed by Fighting Chance.[94] Fighting Chance is a not-for-profit enterprise founded by siblings Laura (CEO) and Jordan O’Reilly to empower and provide meaningful employment for Australians living with a disability. The venture began as a way for Laura and Jordan to help their brother Shane gain employment. Due to his cerebral palsy, Shane had been unable to find a job despite having IT knowledge and skills, and a strong motivation to find work in which he could apply and develop them. Unfortunately, Shane’s challenges are not uncommon: 85 per cent of Australians with profound disabilities experience lifelong unemployment. At the time, day programs existed to support Shane’s engagement in recreational and leisure activities, but no programs were available to help him and other people with profound disabilities build vocational skills, or receive training within a real business environment – all important ways to prove employability. Frustrated by the injustice of the situation, Laura and Jordan founded Fighting Chance to address that need.

> It’s about what you **can** do.

Based in Sydney, Fighting Chance operates two social enterprises that operate in complementary ways as pathways to employment for people with a profound disability who face challenges entering the workforce. Avenue operates as a series of co-working spaces in which people of all abilities are supported. Avenue Entrepreneurs develop and market their own products.[95] Shop Avenue is a retail business that sells artisan-made home décor items, soft toys and fashion accessories ethically sourced from organisations in Cambodia, India, Laos and Nepal that employ and provide employment training to people with a disability. Products are primarily sold through the enterprise’s online store, but Shop Avenue also sells its wares at local community markets in Sydney.

Avenue’s enterprise is built upon the foundational belief that all adults have skills and abilities to contribute. The mission of the enterprise is to empower people by acknowledging their skills, rather than their disability. As CEO, Laura has worked hard to create a supportive culture in which every person is empowered to achieve their maximum capabilities. The enterprise is run entirely by a workforce of people with profound and severe disabilities, many of whom were previously deemed unfit for work. Employees work in teams that handle the day-to-day running of the business, including marketing activities, customer sales, writing the business blog and dealing with stakeholder queries. While these business activities are undertaken with minimal input from support workers or enterprise management, employees are given the

support they require to achieve their personal and business goals relating to their employment or work experience at Avenue. The organisation also offers a work experience program whereby interns are taught skills related to communication, workplace etiquette and job readiness. The enterprise utilises a profit-sharing model whereby employees receive a portion of the profits on a monthly basis.

Fighting Chance's other enterprise, Jigsaw Business Solutions, provides digitisation services to corporate and government clients. Jigsaw competes for contracts against rival companies like any other technology service provider, but employs people with a disability to complete the work. Jigsaw provides training and employment experience to help staff achieve mainstream employment and, unlike many other organisations in the disability sector, pays its employees Award wages. Both enterprises are needed, explains Laura, because 'if we only operated Jigsaw, people like my brother would miss out'.

By 2020, Fighting Chance had established four work hubs across Sydney, helped 360 people through employment, and generated over $5.5 million in revenue for the 2018–19 financial year. But the biggest impact is that the organisation is changing the employment landscape for people with a disability, to give them a fighting chance at a fair go.

Discussion questions

11.11 What factors do you think influence people's perceptions of disability? How do they affect

perceptions?

11.12 How do you think attitudes about disability are affecting the behaviour of managers and employees?

11.13 How could emotional intelligence help managers support an employee with a disability?

11.14 What learning is Fighting Chance enabling? For whom?

Running case: Holiday home helpers: Hire for personality or performance?

Mia realised that achieving her region's growth targets for the year would require that she hire a number of new cleaners. She called Sierra, the HR manager, for advice about using personality testing in the selection process.

'I'm thinking of using personality tests to select new cleaners because there's a lot of evidence that matching someone's personality to their job requirements will make them more satisfied in their job and more likely to stay in it. That appeals to me, because I want staff who will do a good job and stay with the company for quite a while. If you were me, how would you do this?'

'The first thing I'd do is check my assumptions!' said Sierra. 'You're assuming that certain personality types or personality traits make someone a "better" cleaner, or make them more likely to do the job well and stay in it. Do you have any evidence that that's the case? And if so, which types and traits are they?'

‘Well,’ said Mia, ‘when I think about the cleaners I’ve employed in the past who have been very good employees and stayed with me a long time, they were all introverted and highly conscientious. Which makes sense: cleaning houses isn’t a job that’s likely to appeal to someone who is sociable and outgoing, and conscientious people can be relied upon to do things the way they should be done.’

‘Okay,’ said Sierra. ‘But be careful: you’re assuming connections that may be coincidences, and you might also be stereotyping. As it happens, two of our best and longest-serving cleaners in this region are very extroverted people. They work well because they work in teams with other people. We have two others who are new but performing really well. Both happen to be autistic, and it suits them that cleaning is very structured and repetitive work. Be careful of your assumption that a person’s “natural” personality will dictate how they behave on the job. For instance, we just lost a cleaner who was with us for four years. If you had seen their personality profile you might not have expected them to be good at this job because they were highly creative and imaginative, very emotionally sensitive, and very socially oriented. But they were brilliant.’

‘Why was their job fit so good?’ asked Mia.

‘Because during the four years they were with us they were studying English literature at university and writing a novel. They loved this job because it gave their brain a rest. They liked being able to come to work and just do what they were

told, how they were told, without having to think about it. Then they'd go back to their writing work feeling ready to fire up their creativity!'

'So, I gather you're not a fan of personality testing as a selection device,' said Mia.

'It's more that I believe it's better to hire people for what they can *do*, rather than what they *are*. If what you really want is people who will do the job well, you have two options. You can use performance simulations to identify people who can already do that, and you can use training to identify who can quickly and successfully learn to do it. If you want, you can make the successful completion of the training part of the selection process. That way, you're only hiring people who have demonstrated they can perform to your expectations. If they don't like the work, or can't do it, it's better that you both realise that *before* they take the job, rather than *after*.'

Discussion questions

11.15 Which forms of employee behaviour is Mia trying to explain, predict and influence?

11.16 Using the Myers Briggs personality types or Holland's personality job fit, work out what personality types you think would be best suited to being a cleaner. Justify your responses.

11.17 How is Mia's use of perception being illustrated in this scenario? How might this be undermining her decision making as a manager?

11.18 How could Mia and Sierra use social learning theory to successfully hire people who will perform well as cleaners?

Endnotes

1 V. Giang, 'Inside Google's Insanely Popular Emotional Intelligence Course', **http://fastcompany.com/3044157/the-future-of-work/insidegoogles-insanely-popular-emotional-intelligence-course**, 25 March 2015: D. Baur, 'Here's What Google Teaches Its Employees in Its "Search Inside Yourself" Course', www.businessinsider/com/search-inside-yourself-googles-life-changing-mindfulness-course-2014-8, 5 August 2014; G. Gregoire, 'Google's "Jolly Good Fellow", on the Power of Emotional Intelligence', **www.huffingtonpost.com/2013/09/29/googles-jolly-good-fellow-n-3975944.html**, 29 September 2013; and N. Shachtman, 'In Silicon Valley, Meditation Is No Fad, It Could Make Your Career', **http://wired.com/2013/06/meditation-mindfulness-silicon-valley**, 18 June 2013.

2 E. McDonald, 'Absenteeism in the Australian Workplace', *Thirdsector.com*, 26 January 2016.

3 D. W. Organ, *Organizational Citizenship Behavior: The Good Soldier Syndrome* (Lexington, MA: Lexington Books, 1988), p. 4. See also J. L. Lavell, D. E. Rupp and J. Brockner, 'Taking a Multifoci Approach to the Study of Justice, Social Exchange and Citizenship Behavior: The Target Similarity Model', *Journal of Management*, December 2007, pp. 841–66; and J. A. LePine, A. Erez and D. E. Johnson, 'The Nature and Dimensionality of Organizational Citizenship Behavior: A Critical Review and Meta-Analysis', *Journal of Applied Psychology*, February 2002, pp. 52–65.

4 J. R. Spence, D. L. Ferris, D. J. Brown and D. Heller, 'Understanding Daily Citizenship Behaviors: A Social Comparison Approach', *Journal of Organizational Behavior*, May 2011, pp. 547–71; L. M. Little, D. L. Nelson, J. C. Wallace and P. D. Johnson, 'Integrating Attachment Style, Vigor at Work and Extra-Role Performance', *Journal of Organizational Behavior*, April 2011, pp. 464–84; N. P. Podsakoff, P. M. Podsakoff, S. W. Whiting and P. Mishra, 'Effects of Organizational Citizenship Behavior on Selection Decisions in Employment Interviews', *Journal of Applied Psychology*, March 2011, pp. 310–26; T. M. Glomb, D. P. Bhave, A. G. Miner and M. Wall, 'Doing Good, Feeling Good: Examining the Role of Organizational Citizenship Behaviors in Changing Mood', *Personnel Psychology*, Spring 2011, pp. 191–223; T. P. Munyon, W. A. Hochwarter, P. L. Perrewé and G. R. Ferris, 'Optimism and the Nonlinear Citizenship Behavior – Job Satisfaction Relationship in Three Studies', *Journal of Management*, November 2010, pp. 1505–28; R. Ilies, B. A. Scott and T. A. Judge, 'The Interactive Effects of Personal Traits and Experienced States on Intraindividual Patterns of Citizenship Behavior', *Academy of Management Journal*, June 2006, pp. 561–75; P. Cardona, B. S. Lawrence and P. M. Bentler, 'The Influence of Social and Work Exchange Relationships on Organizational Citizenship Behavior', *Group & Organization Management*, April 2004, pp. 219–47; M. C. Bolino and W. H. Turnley, 'Going the Extra Mile: Cultivating and Managing Employee Citizenship Behavior', *Academy of Management Executive*, August 2003, pp. 60–73; M. C. Bolino, W. H. Turnley and J. J. Bloodgood, 'Citizenship Behavior and the Creation of Social Capital in Organizations', *Academy of Management Review*, October 2002,

pp. 505–22; and P. M. Podsakoff, S. B. MacKenzie, J. B. Paine and D. G. Bachrach, 'Organizational Citizenship Behaviors: A Critical Review of the Theoretical and Empirical Literature and Suggestions for Future Research', *Journal of Management*, vol. 26, no. 3 (2000), pp. 543–48.

5 M. C. Bolino and W. H. Turnley, 'The Personal Costs of Citizenship Behavior: The Relationship between Individual Initiative and Role Overload, Job Stress and Work–Family Conflict', *Journal of Applied Psychology*, July 2005, pp. 740–8.

6 This definition adapted from R. W. Griffin and Y. P. Lopez, 'Bad Behavior in Organizations: A Review and Typology for Future Research', *Journal of Management*, December 2005, pp. 988–1005.

7 S. J. Becker, 'Empirical Validation of Affect, Behavior and Cognition as Distinct Components of Behavior', *Journal of Personality and Social Psychology*, May 1984, pp. 1191–205.

8 S. P. Robbins and T. A. Judge, *Essentials of Organizational Behavior*, 11th edn (Upper Saddle River, NJ: Prentice Hall, 2010).

9 M. S. Christian, A. S. Garza and J. E. Slaughter, 'Work Engagement: A Quantitative Review and Test of Its Relations with Task and Contextual Performance', *Personnel Psychology*, Spring 2011, pp. 89–136; V. T. Ho, S-S. Wong and C. H. Lee, 'A Tale of Passion: Linking Job Passion and Cognitive Engagement to Employee Work Performance', *Journal of Management Studies*, January 2011, pp. 26–47; D. R. May, R. L. Gilson and L. M. Harter, 'The Psychological Conditions of Meaningfulness, Safety and Availability and the Engagement of the Human Spirit at Work', *Journal of Occupational and Organizational Psychology*, March 2004, pp. 11–37; R. T. Keller, 'Job Involvement and Organizational Commitment as

Longitudinal Predictors of Job Performance: A Study of Scientists and Engineers', *Journal of Applied Psychology*, August 1997, pp. 539–45; W. Kahn, 'Psychological Conditions of Personal Engagement and Disengagement at Work', *Academy of Management Journal*, December 1990, pp. 692–794; and P. P. Brooke, Jr, D. W. Russell and J. L. Price, 'Discriminant Validation of Measures of Job Satisfaction, Job Involvement and Organizational Commitment', *Journal of Applied Psychology*, May 1988, pp. 139–45. Also see, for example, J. Smythe, 'Engaging Employees to Drive Performance', *Communication World*, May–June 2008, pp. 20–2; A. B. Bakker and W. B. Schaufeli, 'Positive Organizational Behavior: Engaged Employees in Flourishing Organizations', *Journal of Organizational Behavior*, February 2008, pp. 147–54; U. Aggarwal, S. Datta and S. Bhargava, 'The Relationship between Human Resource Practices, Psychological Contract and Employee Engagement – Implications for Managing Talent', *IIMB Management Review*, September 2007, pp. 313–25; M. C. Christian and J. E. Slaughter, 'Work Engagement: A Meta-Analytic Review and Directions for Research in an Emerging Area', *AOM Proceedings*, August 2007, pp. 1–6; C. H. Thomas, 'A New Measurement Scale for Employee Engagement: Scale Development, Pilot Test and Replication', *AOM Proceedings*, August 2007, pp. 1–6; A. M. Saks, 'Antecedents and Consequences of Employee Engagement', *Journal of Managerial Psychology*, vol. 21, no. 7 (2006), pp. 600–19; and A. Parsley, 'Road Map for Employee Engagement', *Management Services*, Spring 2006, pp. 10–11.

10 P. Nicholas, 'Six Tips to Boost Employee Engagement', *Australian Anthill*, 3 December 2009; and S. Payne, 'What Is

Employee Disengagement Costing You?', *Engineers Australia*, 12 August 2016.

11 J. M. George, 'The Wider Context, Costs and Benefits of Work Engagement', *European Journal of Work & Organizational Psychology*, February 2011, pp. 53–9; and 'Employee Engagement Report 2011', BlessingWhite Research, **www.blessingwhite.com**, January 2011, pp. 7–8.

12 A. J. Elliott and P. G. Devine, 'On the Motivational Nature of Cognitive Dissonance: Dissonance as Psychological Discomfort', *Journal of Personality and Social Psychology*, September 1994, pp. 382–94.

13 L. Festinger, *A Theory of Cognitive Dissonance* (Stanford, CA: Stanford University Press, 1957); C. Crossen, 'Cognitive Dissonance Became a Milestone in 1950s Psychology', *Wall Street Journal*, 4 December 2006, p. B1; and Y. 'Sally' Kim, 'Application of the Cognitive Dissonance Theory to the Service Industry', *Services Marketing Quarterly*, April–June 2011, pp. 96–112.

14 H. C. Koh and E. H. Y. Boo, 'The Link between Organizational Ethics and Job Satisfaction: A Study of Managers in Singapore', *Journal of Business Ethics*, 15 February 2001, p. 309.

15 See, for example, W. D. Crano and R. Prislin, 'Attitudes and Persuasion', *Annual Review of Psychology*, 2006, pp. 345–74; and J. Jermias, 'Cognitive Dissonance and Resistance to Change: The Influence of Commitment Confirmation and Feedback on Judgment Usefulness of Accounting Systems', *Accounting, Organizations and Society*, March 2001, p. 141.

16 T. A. Judge, C. J. Thoresen, J. E. Bono and G. K. Patton, 'The Job Satisfaction–Job Performance Relationship: A Qualitative and

Quantitative Review', *Psychological Bulletin*, May 2001, pp. 376–407.

17 L. Saari and T. A. Judge, 'Employee Attitudes and Job Satisfaction', *Human Resource Management*, Winter 2004, pp. 395–407; and T. A. Judge and A. H. Church, 'Job Satisfaction: Research and Practice', in C. L. Cooper and E. A. Locke (eds), *Industrial and Organizational Psychology: Linking Theory with Practice* (Oxford, UK: Blackwell, 2000).

18 D. A. Harrison, D. A. Newman and P. L. Roth, 'How Important Are Job Attitudes?: Meta-Analytic Comparisons of Integrative Behavioral Outcomes and Time Sequences', *Academy of Management Journal*, April 2006, pp. 305–25.

19 G. Chen, R. E. Ployhart, H. C. Thomas, N. Anderson and P. D. Bliese, 'The Power of Momentum: A New Model of Dynamic Relationships between Job Satisfaction Change and Turnover Intentions', *Academy of Management Journal*, February 2011, pp. 159–81.

20 Sustainability at Work, 'Sustainability in the Workplace', www.sustainabilityatwork.com.au, June 2011, accessed 19 December 2012.

21 Based on J. Newman, 'An Organisational Change Framework for Sustainability', *Greener Management International*, vol. 57 (2012), pp. 65–75.

22 S. Marinos, 'Mettle Testing', *Management Today*, June 2010.

23 Emotional Intelligence Development Australia, 'Emotional Intelligence Assessment Tools: Myers-Briggs Type Indicator® Personality Assessment Tool', **www.eidevelopment.com/myers.shtml**, accessed 12 July 2010.

24 F. W. Brown and M. D. Reilly, 'The Myers-Briggs Type Indicator and Transformational Leadership', *Journal of Management Development*, vol. 28, no. 10 (2009), pp. 916–32.

25 CPP, Inc., Myers-Briggs Type Indicator® (MBTI®), **www.cpp.com**, 2011; and J. Llorens, 'Taking Inventory of Myers-Briggs', *T&D*, April 2010, pp. 18–19.

26 CPP, Inc., Myers-Briggs Type Indicator® (MBTI®), **www.cpp.com**, 2011; and J. Llorens, 'Taking Inventory of Myers-Briggs', *T&D*, April 2010, pp. 18–19.

27 See, for example, J. Overbo, 'Using Myers-Briggs Personality Type to Create a Culture Adapted to the New Century', *T&D*, February 2010, pp. 70–2; K. Garrety, R. Badham, V. Morrigan, W. Rifkin and M. Zanko, 'The Use of Personality Typing in Organizational Change: Discourse, Emotions and the Reflective Subject', *Human Relations*, February 2003, pp. 211–35.

28 P. Moran, 'Personality Characteristics and Growth-Orientation of the Small Business Owner Manager', *Journal of Managerial Psychology*, July 2000, p. 651; and M. Higgs, 'Is There a Relationship between the Myers-Briggs Type Indicator and Emotional Intelligence?', *Journal of Managerial Psychology*, September–October 2001, pp. 488–513.

29 J. M. Digman, 'Personality Structure: Emergence of the Five Factor Model', in M. R. Rosenweig and L. W. Porter (eds), *Annual Review of Psychology*, vol. 41 (Palo Alto, CA: Annual Reviews, 1990), pp. 417–40; O. P. John, 'The Big Five Factor Taxonomy: Dimensions of Personality in the Natural Language and in Questionnaires', in L. A. Pervin (ed.), *Handbook of Personality Theory and Research* (New York: Guilford Press, 1990), pp. 66–100;

and M. K. Mount, M. R. Barrick and J. P. Strauss, 'Validity of Observer Ratings of the Big Five Personality Factors', *Journal of Applied Psychology*, April 1996, pp. 272–80.

30 See, for example, T. W. Yiu and H. K. Lee, 'How Do Personality Traits Affect Construction Dispute Negotiation: Study of Big Five Personality Model', *Journal of Construction Engineering & Management*, March 2011, pp. 169–78; H. J. Kell, A. D. Rittmayer, A. E. Crook and S. J. Motowidlo, 'Situational Content Moderates the Association between the Big Five Personality Traits and Behavioral Effectiveness', *Human Performance*, February 2010, pp. 213–28; R. D. Meyer, R. S. Dalal and S. Bonaccio, 'A Meta-Analytic Investigation into the Moderating Effects of Situational Strength on the Conscientiousness–Performance Relationship', *Journal of Organizational Behavior*, November 2009, pp. 1077–102; G. Vittorio, C. Barbaranelli and G. Guido, 'Brand Personality: How to Make the Metaphor Fit', *Journal of Economic Psychology*, June 2001, p. 377; G. M. Hurtz and J. J. Donovan, 'Personality and Job Performance: The Big Five Revisited', *Journal of Applied Psychology*, December 2000, p. 869; W. A. Hochwarter, L. A. Witt and K. M. Kacmar, 'Perceptions of Organizational Politics as a Moderator of the Relationship between Conscientiousness and Job Performance', *Journal of Applied Psychology*, June 2000, p. 472; and M. R. Barrick and M. K. Mount, 'The Big Five Personality Dimensions and Job Performance: A Meta-Analytic Study', *Personnel Psychology*, vol. 44 (1991), pp. 1–26.

31 M. R. Barrick and M. K. Mount, 'Autonomy as a Moderator of the Relationship between the Big Five Personality Dimensions and

Job Performance', *Journal of Applied Psychology*, vol. 78 (1993), pp. 111–18.

32 See also M. R. Furtner and J. F. Rauthmann, 'Relations between Self-Leadership and Scores on the Big Five', *Psychological Reports*, October 2010, pp. 339–53; R. Barrick, M. Piotrowski and G. L. Stewart, 'Personality and Job Performance: Test of the Mediating Effects of Motivation among Sales Representatives', *Journal of Applied Psychology*, February 2002, pp. 43–52; and I. T. Robertson, H. Baron, P. Gibbons, R. MacIver and G. Nyfield, 'Conscientiousness and Managerial Performance', *Journal of Occupational and Organizational Psychology*, June 2000, pp. 171–8.

33 See, for example, J. L. Kisamore, I. M. Jawahar, E. W. Liguori, T. L. Mharapara and T. H. Stone, 'Conflict and Abusive Workplace Behaviors: The Moderating Effects of Social Competencies', *Career Development International*, October 2010, pp. 583–600; P. S. Mishra and A. K. Das Mohapatra, 'Relevance of Emotional Intelligence for Effective Job Performance: An Empirical Study', *Vikalpa: The Journal for Decision Makers*, January–March 2010, pp. 53–61; T-Y. Kim, D. M. Cable, S-P. Kim and J. Wang, 'Emotional Competence and Work Performance: The Mediating Effect of Proactivity and the Moderating Effect of Job Autonomy', *Journal of Organizational Behavior*, October 2009, pp. 983–1000; J. M. Diefendorff and G. J. Greguras, 'Contextualising Emotional Display Rules: Examining the Roles of Targets and Discrete Emotions in Shaping Display Rule Perceptions', *Journal of Management*, August 2009, pp. 880–98; J. Gooty, M. Gavin and N. M. Ashkanasy, 'Emotions Research in OB: The Challenges that Lie Ahead', *Journal of Organizational Behavior*, August 2009, pp. 833–8; N. M.

Ashkanasy and C. S. Daus, 'Emotion in the Workplace: The New Challenge for Managers', *Academy of Management Executive*, February 2002, pp. 76–86; N. M. Ashkanasy, C. E. J. Hartel and C. S. Daus, 'Diversity and Emotions: The New Frontiers in Organizational Behavior Research', *Journal of Management*, vol. 28, no. 3 (2002), pp. 307–38; S. Fox, 'Promoting Emotional Intelligence in Organizations: Make Training in Emotional Intelligence Effective', *Personnel Psychology*, Spring 2002, pp. 236–40; B. E. Ashforth, 'The Handbook of Emotional Intelligence: Theory, Development, Assessment and Application at Home, School and in the Work Place: A Review', *Personnel Psychology*, Autumn 2001, pp. 721–4; and R. Bar-On and J. D. A. Parker, *The Handbook of Emotional Intelligence: Theory, Development, Assessment and Application at Home, School and in the Work Place* (San Francisco, CA: Jossey-Bass, 2000).

34 See, for example, C. S. P. Fernandez, 'Emotional Intelligence in the Workplace', *Journal of Public Health Management and Practice*, February 2007, pp. 80–2.

35 Emma Isaacs, 'About', **http://emmaisaacs.com/about/**, accessed 30 October 2017.

36 A. Carmeli, 'The Relationship between Emotional Intelligence and Work Attitudes, Behavior and Outcomes: An Examination among Senior Managers', *Journal of Managerial Psychology*, September 2003, pp. 788–813.

37 This section is based on R. Bar-On and J. D. A. Parker, *The Handbook of Emotional Intelligence: Theory, Development, Assessment and Application at Home, School and in the Work Place* (San Francisco, CA: Jossey-Bass, 2000); B. E. Ashforth, 'The

Handbook of Emotional Intelligence: Theory, Development, Assessment and Application at Home, School and in the Work Place. A Review', *Personnel Psychology*, Autumn 2001, pp. 721–4; and S. Fox, 'Promoting Emotional Intelligence in Organizations: Make Training in Emotional Intelligence Effective', *Personnel Psychology*, Spring 2002, pp. 236–40.

38 See A. Carmeli, 'The Relationship between Emotional Intelligence and Work Attitudes, Behavior and Outcomes: An Examination among Senior Managers', *Journal of Managerial Psychology*, September 2003, pp. 788–813; P. J. Jordan, N. M. Ashkanasy and C. E. J. Hartel, 'Emotional Intelligence as a Moderator of Emotional and Behavioral Reactions to Job Insecurity', *Academy of Management Review*, July 2002, pp. 361–72.

39 A. Carmeli, 'The Relationship between Emotional Intelligence and Work Attitudes, Behavior and Outcomes: An Examination among Senior Managers', *Journal of Managerial Psychology*, September 2003, pp. 788–813.

40 C. Cherniss and R. D. Caplan, 'A Case Study of Implementing Emotional Intelligence Programs in Organizations', *Journal of Organizational Excellence*, Winter 2001, pp. 763–86; S. B. Vanessa-Urch and W. Deuskat, 'Building the Emotional Intelligence of Groups', *Harvard Business Review*, March 2001, pp. 81–91; K. Brown, 'Emotional Intelligence: Is it Ready for the Workplace?', *HR Leader*, 5 April 2005; 'Emotional Intelligence Equates to Better Leaders: Australia Post', *Workplace Info,* 19 October 2004; A. Mylons, J. Harvey and J. Hodges, *Business Organisation and Management for Queensland* (South Yarra, Vic.: Macmillan Education, 2007); and R.

Bright, 'Why Emotional Intelligence is Essential for a Successful Business', *HuffPost*, 14 December 2018.

41 C. Moller and S. Powell, 'Emotional Intelligence and the Challenges of Quality Management', *Leadership and Organizational Development Journal*, July/August 2001, pp. 341–45; S. Kernbach and N. S. Schutte, 'The Impact of Service Provider Emotional Intelligence on Customer Satisfaction', *Journal of Services Marketing*, November 2005, pp. 438–44; and T. Heffernan, G. O'Neill, T. Travaglione and M. Droulers, 'Relationship Marketing: The Impact of Emotional Intelligence and Trust on Bank Performance', *International Journal of Bank Marketing*, vol. 26, no. 3 (2008), pp. 183–99.

42 See L. A. Downey, V. Papageorgiou and C. Stough, 'Examining the Relationship between Leadership, Emotional Intelligence and Intuition in Female Managers', *Leadership & Organization Development Journal*, April 2006, pp. 250–64.

43 Question of Ethics box based on P. Jaskunas, 'The Tyranny of the Forced Smile', *New York Times Online*, 14 February 2015; and R. E. Silverman, 'Workers Really Do Put on a Happy Face for the Boss', *Wall Street Journal*, 29 January 2015, p. D4.

44 See, for example, J. Silvester, F. M. Anderson-Gough, N. R. Anderson and A. R. Mohamed, 'Locus of Control, Attributions and Impression Management in the Selection Interview', *Journal of Occupational and Organizational Psychology*, March 2002, pp. 59–77; D. W. Organ and C. N. Greene, 'Role Ambiguity, Locus of Control and Work Satisfaction', *Journal of Applied Psychology*, February 1974, pp. 101–2; and T. R. Mitchell, C. M. Smyser and S. E. Weed,

'Locus of Control: Supervision and Work Satisfaction', *Academy of Management Journal*, September 1975, pp. 623–31.

45 I. Zettler, N. Friedrich and B. E. Hilbig, 'Dissecting Work Commitment: The Role of Machiavellianism', *Career Development International*, February 2011, pp. 20–35; S. R. Kessler, A. C. Bandelli, P. E. Spector, W. C. Borman, C. E. Nelson and L. M. Penney, 'Re-Examining Machiavelli: A Three-Dimensional Model of Machiavellianism in the Workplace', *Journal of Applied Social Psychology*, August 2010, pp. 1868–96; W. Amelia, 'Anatomy of a Classic: Machiavelli's Daring Gift', *Wall Street Journal*, 30–31 August 2008, p. W10; S. A. Snook, 'Love and Fear and the Modern Boss', *Harvard Business Review*, January 2008, pp. 16–17; and R. G. Vleeming, 'Machiavellianism: A Preliminary Review', *Psychology Reports*, February 1979, pp. 295–310.

46 P. Harris, 'Machiavelli and the Global Compass: Ends and Means in Ethics and Leadership', *Journal of Business Ethics*, June 2010, pp. 131–8; and P. Van Kenhove, I. Vermeir and S. Verniers, 'An Empirical Investigation of the Relationship between Ethical Beliefs, Ethical Ideology, Political Preference and Need for Closure', *Journal of Business Ethics*, 15 August 2001, p. 347.

47 Based on J. Brockner, *Self-Esteem at Work: Research, Theory and Practice* (Lexington, MA: Lexington Books, 1988), Chapters **1** –**4** .

48 See, for example, R. Vermunt, D. van Knippenberg, B. van Knippenberg and E. Blaauw, 'Self-Esteem and Outcome Fairness: Differential Importance of Procedural and Outcome Considerations', *Journal of Applied Psychology*, August 2001, p. 621; T. A. Judge and J. E. Bono, 'Relationship of Core Self-Evaluation Traits – Self-

Esteem, Generalized Self Efficacy, Locus of Control and Emotional Stability – with Job Satisfaction and Job Performance', *Journal of Applied Psychology*, February 2001, p. 80; and D. B. Fedor, J. M. Maslyn, W. D. Davis and K. Mathieson, 'Performance Improvement Efforts in Response to Negative Feedback: The Roles of Source Power and Recipient Self-Esteem', *Journal of Management*, January–February 2001, pp. 79–97.

49 M. Snyder, *Public Appearances, Private Realities: The Psychology of Self-Monitoring* (New York: W. H. Freeman, 1987).

50 See, for example, D. U. Bryant, M. Mitcham, A. R. Araiza and W. M. Leung, 'The Interaction of Self-Monitoring and Organizational Position on Perceived Effort', *Journal of Managerial Psychology*, vol. 26, no. 2 (2011), pp. 138–54; B. B. Vilela and J. A. V. González, 'Salespesons' Self-Monitoring: Direct, Indirect and Moderating Effects on Salespersons' Organizational Citizenship Behavior', *Psychology & Marketing*, January 2010, pp. 71–89; and P. M. Fandt, 'Managing Impressions with Information: A Field Study of Organizational Realities', *Journal of Applied Behavioral Science*, June 2001, pp. 180–205.

51 See, for example, D. U. Bryant, M. Mitcham, A. R. Araiza and W. M. Leung, 'The Interaction of Self-Monitoring and Organizational Position on Perceived Effort', *Journal of Managerial Psychology*, vol. 26, no. 2 (2011), pp. 138–54; B. B. Vilela and J. A. V. González, 'Salespesons' Self-Monitoring: Direct, Indirect and Moderating Effects on Salespersons' Organizational Citizenship Behavior', *Psychology & Marketing*, January 2010, pp. 71–89; and P. M. Fandt, 'Managing Impressions with Information: A Field Study of Organizational

Realities', *Journal of Applied Behavioral Science*, June 2001, pp. 180–205.

52 R. N. Taylor and M. D. Dunnette, 'Influence of Dogmatism, Risk Taking Propensity and Intelligence on Decision Making Strategies for a Sample of Industrial Managers', *Journal of Applied Psychology*, August 1974, pp. 420–3.

53 I. L. Janis and L. Mann, *Decision Making: A Psychological Analysis of Conflict, Choice and Commitment* (New York: Free Press, 1977).

54 See, for example, C. P. Cross, L. T. Copping and A. Campbell, 'Sex Differences in Impulsivity: A Meta-Analysis', *Psychological Bulletin*, January 2011, pp. 97–130; A. A. Schooler, K. Fujita, X. Zou and S. J. Stroessner, 'When Risk Seeking Becomes a Motivational Necessity', *Journal of Personality and Social Psychology*, August 2010, pp. 215–31; A. Chatterjee and D. C. Hambrick, 'Executive Personality, Capability Cues and Risk-Taking: How Narcissistic CEOs React to Their Successes and Stumbles', *Academy of Management Proceedings*, **www.aomonline.org**, 2010; E. Soane, C. Dewberry and S. Narendran, 'The Role of Perceived Costs and Perceived Benefits in the Relationship between Personality and Risk-Related Choices', *Journal of Risk Research*, April 2010, pp. 303–18; and N. Kogan and M. A. Wallach, 'Group Risk Taking as a Function of Members' Anxiety and Defensiveness', *Journal of Personality*, March 1967, pp. 50–63.

55 H. Zhao, S. E. Seibert and G. T. Lumpkin, 'The Relationship of Personality to Entrepreneurial Intentions and Performance: A Meta-Analytic Review', *Journal of Management*, March 2010, pp. 381–404; and K. Hyrshy, 'Entrepreneurial Metaphors and Concepts: An

Exploratory Study', *Journal of Managerial Psychology*, July 2000, p. 653; and B. McCarthy, 'The Cult of Risk Taking and Social Learning: A Study of Irish Entrepreneurs', *Management Decision*, August 2000, pp. 563–75.

56 J. L. Holland, *Making Vocational Choices: A Theory of Vocational Personalities and Work Environments* (Odessa, FL: Psychological Assessment Resources, 1997).

57 S. Bates, 'Personality Counts: Psychological Tests Can Help Peg the Job Applicants Best Suited for Certain Jobs', *HR Magazine*, February 2002, pp. 28–38; and K. J. Jansen and A. K. Brown, 'Toward a Multi-Level Theory of Person Environment Fit', *Academy of Management Proceedings from the Fifty-Eighth Annual Meeting of the Academy of Management*, San Diego, CA (7–12 August 1998), pp. HR: FR1–8.

58 See, for example, G. W. M. Ip and M. H. Bond, 'Culture, Values and the Spontaneous Self-Concept', *Asian Journal of Psychology*, vol. 1 (1995), pp. 30–6; J. E. Williams, J. L. Saiz, D. L. FormyDuval, M. L. Munick, E. E. Fogle, A. Adom, A. Haque, F. Neto and J. Yu, 'Cross-Cultural Variation in the Importance of Psychological Characteristics: A Seven-Year Country Study', *International Journal of Psychology*, October 1995, pp. 529–50; V. Benet and N. G. Walker, 'The Big Seven Factor Model of Personality Description: Evidence for Its Cross-Cultural Generalizability in a Spanish Sample', *Journal of Personality and Social Psychology*, October 1995, pp. 701–18; R. R. McCrae and P. T. Costa, Jr, 'Personality Trait Structure as a Human Universal', *American Psychologist*, 1997, pp. 509–16; and M. J. Schmit, J. A. Kihm and C.

Robie, 'Development of a Global Measure of Personality', *Personnel Psychology*, Spring 2000, pp. 153–93.

59 C. Jarrett, 'Different Nationalities Really have Different Personalities', *BBC Future*, 13 April 2017.

60 J. F. Salgado, 'The Five Factor Model of Personality and Job Performance in the European Community', *Journal of Applied Psychology*, February 1997, pp. 30–43. *Note:* This study covered the 15-nation European community and didn't include the 10 countries that joined in 2004.

61 A. Stanava, 'How Skills and Personality Traits Contribute to the Gender Pay Gap', *The Conversation*, 14 September 2017.

62 G. Kranz, 'Organizations Look to Get Personal in '07', *Workforce Management*, 19 June 2007.

63 A. O'Connell, 'Smile, Don't Bark in Tough Times', *Harvard Business Review*, November 2009, p. 27; and G. A. Van Kleef et al., 'Searing Sentiment or Cold Calculation? The Effects of Leader Emotional Displays on Team Performance Depend on Follower Epistemic Motivation', *Academy of Management Journal*, June 2009, pp. 562–80.

64 Advertisement for Land Rover Discovery Series II.

65 H. H. Kelley, 'Attribution in Social Interaction', in E. Jones et al. (eds), *Behavior* (Morristown, NJ: General Learning Press, 1972).

66 G. Miller and T. Lawson, 'The Effect of an Informational Option on the Fundamental Attribution Error', *Personality and Social Psychology Bulletin*, June 1989, pp. 194–204. See also G. Charness and E. Haruvy, 'Self-Serving Bias: Evidence from a Simulated Labour Relationship', *Journal of Managerial Psychology*, July 2000, p. 655; and T. J. Elkins, J. S. Phillips and R. Konopaske, 'Gender-Related

Biases in Evaluations of Sex Discrimination Allegations: Is Perceived Threat a Key?', *Journal of Applied Psychology*, April 2002, pp. 280–93.

67 S. T. Fiske, 'Social Cognition and Social Perception', *Annual Review of Psychology*, 1993, pp. 155–94; G. N. Powell and Y. Kido, 'Managerial Stereotypes in a Global Economy: A Comparative Study of Japanese and American Business Students' Perspectives', *Psychological Reports*, February 1994, pp. 219–26; and J. L. Hilton and W. von Hippel, 'Stereotypes', in J. T. Spence, J. M. Darley and D. J. Foss (eds), *Annual Review of Psychology*, vol. 47 (Palo Alto, CA: Annual Reviews Inc., 1996), pp. 237–71.

68 A. Collins, 'Sydney Women's Shed Encourages Ladies to Pick up Tools, Pursue Trades', *ABC News*, 5 November 2017; 'About Us', Supporting And Linking Tradeswomen, https://saltaustralia.org.au, accessed 15 November 2017; and L. Wachsmuth, 'Fiona Aims to Inspire Fellow Tradeswomen', *Illawarra Mercury*, 9 July 2013.

69 Based on V. K. Gupta, D. B. Turban, S. A. Wasti and A. Sikdar, 'The Role of Gender Stereotypes in Perceptions of Entrepreneurs and Intentions to Become an Entrepreneur', *Entrepreneurship Theory and Practice*, March 2009, pp. 397–417; and J. B. Riviera, 'What's My Line? An Exercise on First Impressions and Perceptual Shortcuts that Puts Students into the Picture', *Journal of Management Education*, June 1999, pp. 297–301.

70 Managing for Diversity and Inclusion box based on K. B. Dahlin, L. R. Weingart and P. J. Hinds, 'Team Diversity and Information Use', *Academy of Management Journal*, December 2005, pp. 1107–23; B. L. Kirkman, P. E. Tesluk and B. Rosen, 'The Impact of Demographic Heterogeneity and Team Leader–Team

Member Demographic Fit on Team Empowerment and Effectiveness', *Group & Organization Management,* June 2004, pp. 334–68; K. Lovelace, D. L. Shapiro and L. R. Weingart, 'Maximizing Cross-Functional New Product Teams' Innovativeness and Constraint Adherence: A Conflict Communications Perspective', *Academy of Management Journal,* August 2002, pp. 779–93; J. Jusko, 'Diversity Enhances Decision Making', *IndustryWeek,* 2 April 2001, p. 9; F. Rice, 'How to Make Diversity Pay', *Fortune*, 8 August 1994, pp. 78–86; M. L. Maznevski, 'Understanding Our Differences: Performance in Decision-Making Groups with Diverse Members', *Human Relations*, May 1994, pp. 531–52; L. Strach and L. Wicander, 'Fitting In: Issues of Tokenism and Conformity for Minority Women', *SAM Advanced Management Journal*, Summer 1993, pp. 22–5; C. R. Bantz, 'Cultural Diversity and Group Cross-Cultural Team Research', *Journal of Applied Communication Research*, February 1993, pp. 1–19; and L. Copeland, 'Making the Most of Cultural Differences at the Workplace', *Personnel*, June 1988, pp. 52–60.

71 A. Bandura, *Social Learning Theory* (Upper Saddle River, NJ: Prentice Hall, 1977).

72 B. F. Skinner, *Contingencies of Reinforcement* (East Norwalk, CT: Appleton-Century-Crofts, 1971).

73 For an interesting article on the subject, see D. Nitsch, M. Baetz and J. C. Hughes, 'Why Code of Conduct Violations Go Unreported: A Conceptual Framework to Guide Intervention and Future Research', *Journal of Business Ethics*, April 2005, pp. 327–41.

74 This section based on S. M. Crampton and J. W. Hodge, 'Generations in the Workplace: Understanding Age Diversity', *The*

Business Review, December 2007, pp. 16–22; B. M. Frandsen, 'Leading by Recognising Generational Differences', *Long-Term Living*, February 2009, pp. 34–5; P. W. Haserof, 'The Keys to Maintaining Professionalism & Harmony across the Generations at Work', *The Professional Lawyer*, June 2009, pp. 3–6; J. W. Gibson, R. A. Greenwood and E. F. Murphy, Jr, 'Generational Differences in the Workplace: Personal Values, Behaviors and Popular Beliefs', *Journal of Diversity Management*, vol. 3 (2009), pp. 1–8; E. Parry, *Generational Diversity at Work: New Research Perspectives* (Oxon, UK: Routledge, 2014); and R. Scott, 'Get Ready for Generation Z', *Forbes*, 28 November 2016.

75 Australian Network on Disability, 'Disability Statistics', **https://www.and.org.au**, accessed 14 October 2017.

76 T. Ong, 'Workplace Discrimination: Half of LGBTI Australians Hide Sexuality at Work, Report Finds', *ABC News*, 28 September 2016.

77 Australian Dyslexia Association, 'What Is Dyslexia?', **http://dyslexiaassociation.org.au**, accessed 14 October 2017.

78 N. Henderson, 'Different Abilities Pay Off', National Organization on Disability, **https://www.nod.org/**, 30 August 2017, accessed 14 October 2017.

79 NSW Public Service Commission, 'Implications in the Workplace – Physical Disabilities', **https://www.psc.nsw.gov.au**, accessed 14 October 2017.

80 N. Henderson, 'Different Abilities Pay Off', National Organization on Disability, **https://www.nod.org**, 30 August 2017, accessed 14 October 2017.

81 beyondblue, **www.beyondblue.org.au**, accessed 27 October 2017; Heads Up, **www.headsup.org.au**, accessed 27 October 2017; and A. Martin, M. Woods and S. Dawkins, 'Managing Employees with Mental Health Issues: Identification of Conceptual and Procedural Knowledge for Development within Management Education Curricula', *Academy of Management Education*, 8 January 2014.

82 A. Martin, M. Woods and S. Dawkins, 'Managing Employees with Mental Health Issues: Identification of Conceptual and Procedural Knowledge for Development within Management Education Curricula', *Academy of Management Education*, 8 January 2014; and A. Martin, 'Individual and Contextual Correlates of Managers' Attitudes towards Depressed Employees', *Human Resource Management*, vol. 49 (2010), pp. 647–68.

83 A. Martin, 'Individual and Contextual Correlates of Managers' Attitudes towards Depressed Employees', *Human Resource Management*, vol. 49 (2010), pp. 647–68.

84 PricewaterhouseCoopers, 'Creating a Mentally Healthy Workplace: Return on Investment Analysis', March 2014, **https://www.headsup.org.au/docs/default-source/resources/beyondblue_workplaceroi_finalreport_may-2014.pdf**, accessed 20 January 2018.

85 This section based on F. Bulutlar and E. Ü. Öz, 'The Effects of Ethical Climates on Bullying Behavior in the Workplace', *Journal of Business Ethics*, May 2009, pp. 273–95; 'Are You Tolerating Bullies in Your Crew?', *Safety Now*, June 2010, pp. 1–2; T. A. Daniel, 'Tough Boss or Workplace Bully?', *HR Magazine*, June 2009, pp. 82–5; and V. J. Roscigno, S. H. Lopez and R. Hodson, 'Supervisory Bullying,

Status Inequalities and Organizational Context', *Social Forces*, March 2009, pp. 1561–89.

86 Fair Work Australia, 'Bullying and Harassment', **www.fairwork.gov.au**, accessed 27 October 2017.

87 L. M. Crothers, J. Lipinski and M. C. Minutolo, 'Cliques, Rumors and Gossip by the Water Cooler: Female Bullying in the Workplace', *The Psychologist–Manager Journal*, April 2009, pp. 97–110.

88 L. D'Angelo Fisher, 'Workplace Bullying Rampant', *BRW*, 29 November – 6 December 2012, p. 35.

89 S. R. Valentine, S. K. Hanson and G. M. Fleischman, 'The Spiralling and Spillover of Misconduct: Perceived Workplace Bullying, Subclinical Psychopathy, and Businesspersons' Recognition of an Ethical Issue', *Employee Responsibilities and Rights*, vol. 29 (2017), pp. 221–44.

90 S. R. Valentine, S. K. Hanson and G.M. Fleischman, 'The Spiralling and Spillover of Misconduct: Perceived Workplace Bullying, Subclinical Psychopathy, and Businesspersons' Recognition of an Ethical Issue', *Employee Responsibilities and Rights*, vol. 29 (2017), pp. 221–44.

91 L. M. Crothers, J. Lipinski and M. C. Minutolo, 'Cliques, Rumors and Gossip by the Water Cooler: Female Bullying in the Workplace', *The Psychologist–Manager Journal*, April 2009, pp. 97–110.

92 Section adapted from SafeWork Australia, *Guide for Preventing and Responding to Workplace Bullying* (Canberra: SafeWork Australia, 2016).

93 Adapted from SafeWork Australia, *Guide for Preventing and Responding to Workplace Bullying* (Canberra: SafeWork Australia, 2016).

94 A. Coopes, 'Fighting Chance a Legacy of Love', *UNSW Newsroom*, **https://newsroom.unsw.edu.au/news**, 30 November 2015, accessed 1 October 2017; Fighting Chance, 'What We Do', **https://fightingchance.org.au**, accessed 15 October 2017; Avenue, https://avenuefairtrade.com.au, accessed 1 October 2017; Australian Network on Disability, 'Avenue: Disability Fair Trade', **https://www.and.org.au**, 29 April 2014, accessed 1 October 2017; MyCareerSpace, 'Why Avenue Will Be a Success', **https://mycarespace.com.au**, 31 May 2017, accessed 1 October 2017; and World Cerebral Palsy Day, 'Laura O'Reilly: Fighting Chance', **https://worldcpday.org**, 6 October 2017; 'Our Impact', **fightingchance.org.au**, 5 October 2020.

95 **https://shopavenue.org.au/pages/about-us**, accessed 18 March 2021.

Chapter 12 Motivating and rewarding employees

Fact or fiction?

Money is a universal motivator.

Fiction

Maybe the greatest fallacy about motivation is that everyone is motivated by money. ***Many ineffective or inexperienced managers naively believe that money is a prime motivator***. Then they proceed to ignore the many other actions and rewards they control that are equally as important as money, if not more so. In this chapter, you'll learn about the many options open to managers for improving employee motivation. You'll see that one-size-doesn't-fit-all and that the secret to being an effective motivator is understanding each individual's unique needs.

Successful managers need to understand that what motivates them personally may have little or no effect on others. Effective managers know how and why employees are motivated and tailor motivational practices to satisfy their needs and wants. As you'll read in the opening case study, a person's motivation for taking a particular job often relates to far more than the job itself! That's why motivating and rewarding employees are some of the manager's most important and challenging activities.

Learning outcomes

12.1 Define and explain motivation.
12.2 Compare and contrast early theories of motivation.
12.3 Compare and contrast contemporary theories of motivation.
12.4 Discuss contemporary issues in motivating employees.

Do good, feel good

Ronni Kahn created OzHarvest to stop good food going to waste. Her vision, commitment and enthusiasm for rescuing

food have inspired thousands of people to support the organisation, which has provided over 160 million meals to people in need.

Yonhap/Newscom/Alamy Live News

As an events manager, Ronni Kahn loved creating memorable experiences for her clients and their guests. But she hated to see good food thrown away after each event. ‘It was a terrible, terrible feeling,’ she says. One night in 2002, after her biggest event ever, she thought: ‘This is out of control.’ She packed up all the surplus food and took it to the nearest homeless shelter. ‘When I drove out of there I was stunned . . . It was easy and it felt so good . . . We were never going to have to waste food again.’ And so OzHarvest was born.

OzHarvest is a not-for-profit food rescue organisation that collects surplus food from donors such as supermarkets, restaurants, airlines and hotels and redistributes it to charities that support people in need. For example, the food might be prepared for a catered event and then not be served because the event was cancelled or attendance was lower than expected. OzHarvest not only enables donors to reduce food waste, but also improves sustainability impacts: each kilogram of food rescued saves 2 kilograms of greenhouse emissions and 143 litres of water. It also helps charities to feed more people, and to use the money they save on food supplies to provide other forms of support to people in need.

Since the early days when Kahn operated with one van and a handful of helpers, OzHarvest has achieved phenomenal growth and success. It now operates in Australia, New Zealand, South Africa and the United Kingdom. In Australia, it has 200 staff and over 2,500 volunteers, rescues nearly 200 tonnes of food a week and has delivered over 160 million meals to people in need. It distributes food through nearly 1,500 charities and operates two free food supermarkets in Sydney with a 'take what you need, give if you can' philosophy. It also runs a diverse array of events and educational programs targeting food, nutrition and food waste. OzHarvest's next big goal is to help halve food waste in Australia by 2030.

As OzHarvest's founder and CEO, Kahn has had to overcome numerous challenges, but her belief in what she is doing has helped her to make the organisation a success. 'Failure never crossed my mind . . . The underlying purpose of OzHarvest was to right a wrong. The wrong being throwing away food, the right being placing it in the hands of people who needed it . . . When you follow your instincts you are [able] to act in a way that you wouldn't normally act.' For Kahn, this meant being able to overcome her fear of speaking in public. 'The things I wanted to say felt bigger than my terror.'

Kahn's work with OzHarvest has been recognised in many ways, including being named 'Australian Local Hero of the Year' in 2010 and one of Boss magazine's 'Top 21 True Leaders' in 2017. In 2019, she was made an Officer of Order

of Australia (AO). But the biggest reward, she says, is that when ‘you make other people feel amazing . . . you . . . end up feeling amazing, too’. Kahn believes that this is the key to the organisation’s success. ‘Working from your head alone simply accomplishes the basics . . . Our hearts are our momentum for action.’[1]

What is motivation?

Learning outcome 12.1 Define and explain motivation.

Many people incorrectly view motivation as a personal trait; that is, they think some people are motivated and others aren't. Our knowledge of motivation tells us that we can't label people that way, because individuals differ in motivational drive and their overall motivation varies from situation to situation. For example, someone working while studying at high school or university might be motivated to take on the job in order to earn money, to build an employment track record, or to become more independent. In later years, when they are pursuing the career path of their choice, they may be more motivated by the chance to work for a particular employer because that offers prestige or professional opportunities, or by financial rewards that provide status or enable the kind of lifestyle they aspire to.

Motivation refers to the process by which a person's efforts are energised, directed and sustained towards attaining a goal.[2] This definition has three key elements: energy, direction and persistence.[3]

motivation

> The process by which a person's efforts are energised, directed and sustained towards attaining a goal

The (1) *energy* element is a measure of intensity or drive. A motivated person puts forth effort and works hard. However, the quality of the effort must be considered as well as its intensity. High levels of effort don't necessarily lead to favourable job performance unless the effort is channelled in a (2) *direction* that benefits the organisation. Effort that's directed towards, and is consistent with, organisational goals is the kind of effort we want from employees. Finally, motivation includes a (3) *persistence* dimension. We want employees to persist in putting forth effort to achieve those goals.

Motivating high levels of employee performance is an important organisational concern and managers keep looking for answers to the question, 'What motivates employees?' For example, a Gallup poll found that a large majority of US employees – some 73 per cent – aren't excited about their work. As the researchers stated, 'These employees are essentially "checked out". They're sleepwalking through their workday, putting time, but not energy or passion, into their work.'[4] It's no wonder, then, that both managers and academics want to be able to better understand employee motivation.

What do the early theories of motivation say?

> Learning outcome 12.2 Compare and contrast early theories of motivation.

The 1950s and 1960s were a fruitful time for the development of motivation concepts. Four specific theories formulated during this period are probably still the best-known explanations of employee motivation: the hierarchy of needs theory, the three-needs theory, Theories X and Y, and the two-factor theory. You should be familiar with these early theories for at least two reasons. First, they represent the foundation from which contemporary theories grew. Second, practising managers regularly use these theories and their terminology in explaining employee motivation. Let’s take a look at them.

What is Maslow's hierarchy of needs theory?

The best-known motivation theory is probably Abraham Maslow's **hierarchy of needs theory**.[5] Maslow was a psychologist who proposed that within every person is a hierarchy of five needs:

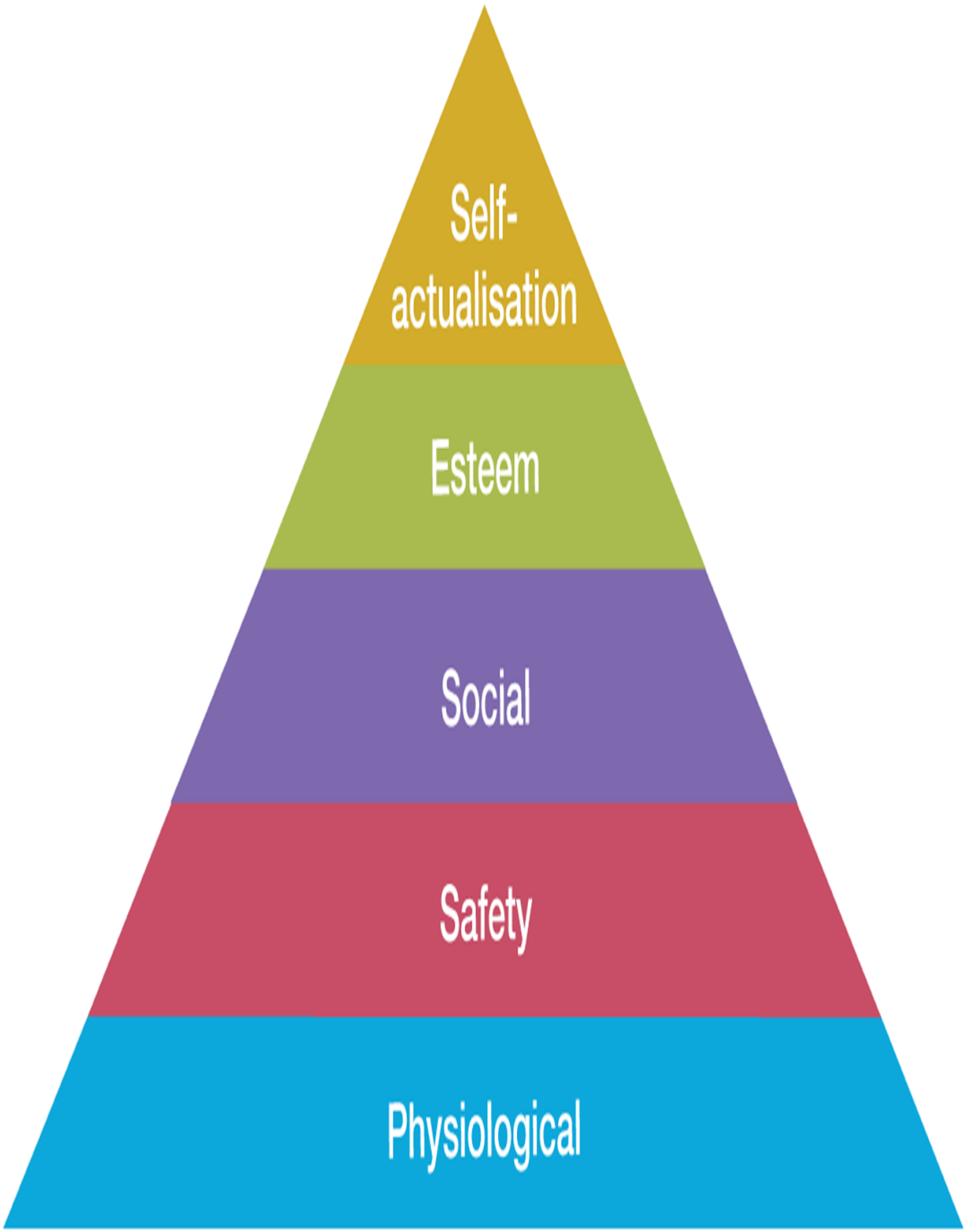
- **Physiological needs:** food, drink, shelter, sex and other physical requirements.
- **Safety needs:** security and protection from physical and emotional harm, as well as assurance that physical needs will continue to be met.
- **Social needs:** affection, belongingness, acceptance and friendship.
- **Esteem needs:** internal esteem factors such as self-respect, autonomy and achievement, and external esteem factors such as status, recognition and attention.
- **Self-actualisation needs:** growth, achieving one's potential and self-fulfilment; the drive to become what one is capable of becoming.

hierarchy of needs theory

> Maslow's theory that there is a hierarchy of five human needs: physiological, safety, social, esteem and self-actualisation

Maslow argued that an individual moves up the needs hierarchy from one level to the next. Each level in the needs hierarchy must be substantially satisfied before the next need becomes dominant (see **Figure 12.1**). This means that a person would initially be motivated to fulfil their physiological needs for shelter, food and drink. Once they fulfilled those needs, the need for safety and security would become dominant, and they would turn their attention to that issue. In addition, Maslow separated the five needs into higher and lower levels. Physiological and safety needs were considered *lower-order needs*; social, esteem and self-actualisation needs were considered *higher-order needs*. Lower-order needs are predominantly satisfied externally, while higher-order needs are satisfied internally.

Figure 12.1 Maslow's hierarchy of needs



Source: A. H. Maslow, R. D. Frager (ed.) and J. Fadiman (ed.), Motivation and Personality, 3rd edn, © 1987, reproduced by permission of Pearson Education Inc., Upper Saddle River, NJ.

How does Maslow's theory explain motivation? Managers using Maslow's hierarchy to motivate employees do things to satisfy employees' needs. But the theory also says that once a need is substantially satisfied, an individual isn't motivated to satisfy that need. Therefore, to motivate someone, you need to understand what need level that person is on in the hierarchy and focus on satisfying needs at or above that level.

Maslow's need theory has received wide recognition, especially among practising managers. Its popularity probably can be attributed to the theory's intuitive logic and ease of understanding.[6] However, Maslow provided no empirical support for his theory, and several studies that sought to validate it could not do so.[7] So, while it's an interesting theory, there is little evidence to suggest that people actually are motivated by these needs or that they deal with their motivations as Maslow described.

What is McClelland's three-needs theory?

David McClelland also considered personal needs that motivate behaviour. He and his associates proposed the **three-needs theory**, which says there are three acquired (not innate) needs that are major motives at work.[8] These three needs are the **need for achievement (nAch)**, which is the drive to succeed and excel in relation to a set of standards; the **need for power (nPow)**, which is the need to make others behave in a way that they wouldn't have behaved otherwise; and the **need for affiliation (nAff)**, which is the desire for friendly and close interpersonal relationships. Of these three needs, the need for achievement has been researched the most.

three-needs theory

McClelland's theory, which says that three acquired (not innate) needs – achievement, power and affiliation – are major motives at work

need for achievement (nAch)

The drive to succeed and excel in relation to a set of standards

need for power (nPow)

The need to make others behave in a way that they wouldn't have behaved otherwise

need for affiliation (nAff)

The desire for friendly and close interpersonal relationships

People with a high need for achievement are striving for personal achievement rather than for the trappings and rewards of success. They have a desire to do something better or more efficiently than it's been done before.[9] They prefer jobs that offer personal responsibility for finding solutions to problems, in which they can receive rapid and unambiguous feedback on their performance in order to tell whether they're improving, and in which they can set moderately challenging

goals. High achievers avoid what they perceive to be very easy or very difficult tasks. Also, a high need to achieve doesn't necessarily lead to being a good manager, especially in large organisations. That's because high achievers focus on their *own* accomplishments while good managers emphasise helping *others* accomplish their goals.[10] McClelland showed that employees can be trained to stimulate their achievement need by being in situations where they have personal responsibility, feedback and moderate risks.[11]

The other two needs in this theory haven't been researched as extensively as the need for achievement. However, we do know that the best managers tend to be high in the need for power and low in the need for affiliation.[12]

What are McGregor's Theory X and Theory Y?

Douglas McGregor proposed an alternative theory about what motivates people's behaviour in their workplace. He suggested two views of human nature: Theory X and Theory Y.[13] Very simply, **Theory X** is a negative view of people that assumes workers have little ambition, dislike work, want to avoid responsibility and need to be closely controlled to work effectively. **Theory Y** is a positive view that assumes employees enjoy work, seek out and accept responsibility, and exercise self-direction. McGregor believed that Theory Y assumptions should guide management practice and proposed that participation in decision making, responsible and challenging jobs, and good group relations would maximise employee motivation. We certainly see some evidence of Theory Y assumptions in management practices such as empowerment and the use of self-managing teams. But if we consider management practice such as the use of workplace surveillance, we can see how Theory X assumptions are also alive and well in modern workplaces.

Theory X

The assumption that employees dislike work, are lazy, avoid responsibility and must be

coerced to work

Theory Y

The assumption that employees are creative, enjoy work, seek responsibility and can exercise self-direction

What is Herzberg's two-factor theory?

Frederick Herzberg considered another possibility: that a person's working conditions influence their motivation.[14] Herzberg's **two-factor theory** (also called *motivation-hygiene theory*) was developed from his research into attitudes towards work and the factors that influenced job satisfaction (see **Figure 12.2**, and the Contemporary Concepts in Today's Organisations box). At the time, people thought that individuals experienced some degree of job satisfaction ranging from 'very satisfied' to 'very dissatisfied'[15] and that their level of job satisfaction affected the effort they put into their work.[16] Herzberg examined what made people feel exceptionally good (satisfied) or bad (dissatisfied) about their jobs and found that the replies they gave when they felt good about their jobs were significantly different from those they gave when they felt badly. As you see in **Figure 12.3**, when people felt good about their work, they tended to cite intrinsic factors arising from the job itself, such as achievement, recognition and responsibility. When they were dissatisfied, they tended to cite extrinsic factors arising from the job context, such as company policy and administration, supervision, interpersonal relationships and working conditions.

Figure 12.2 Herzberg's two-factor theory

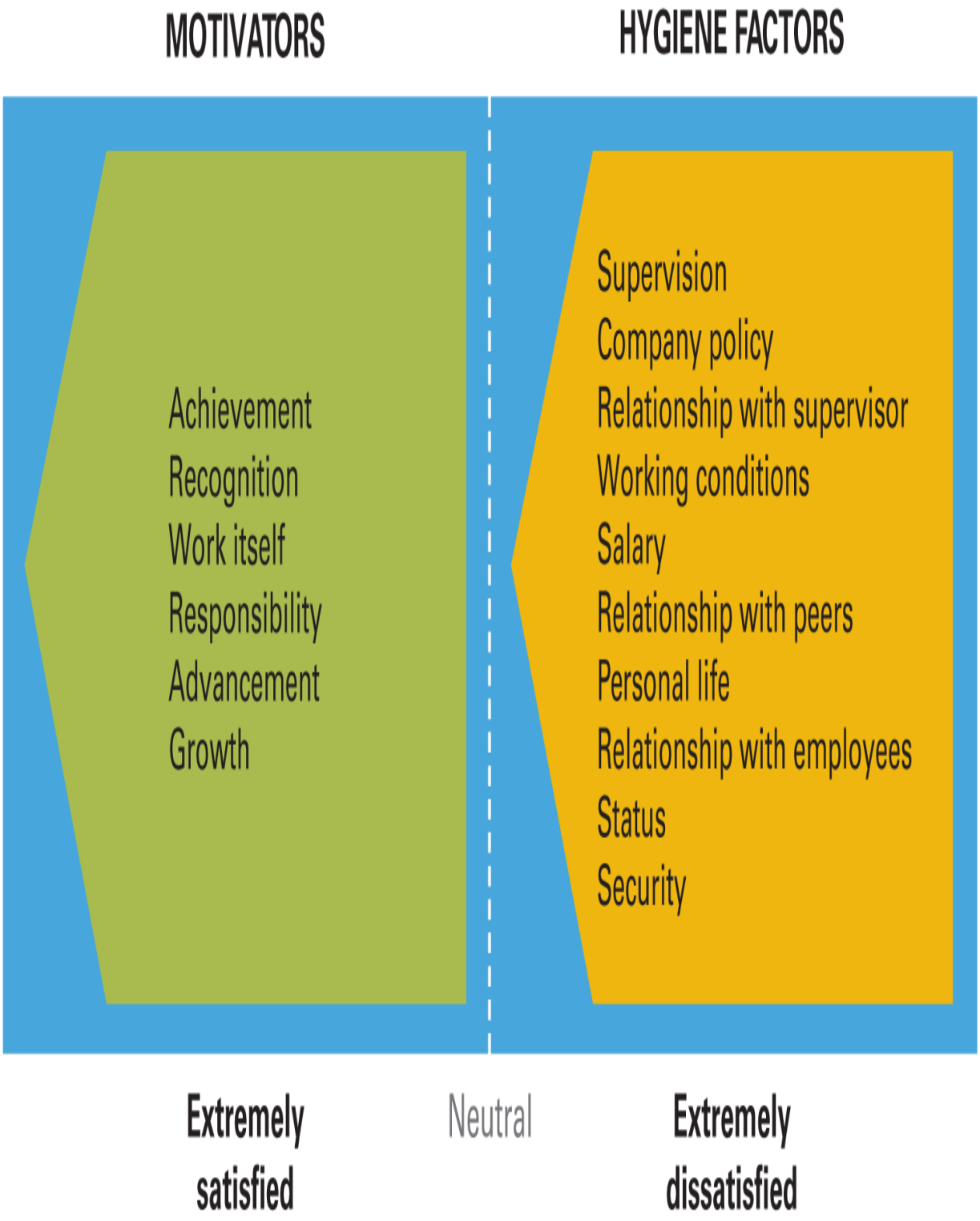
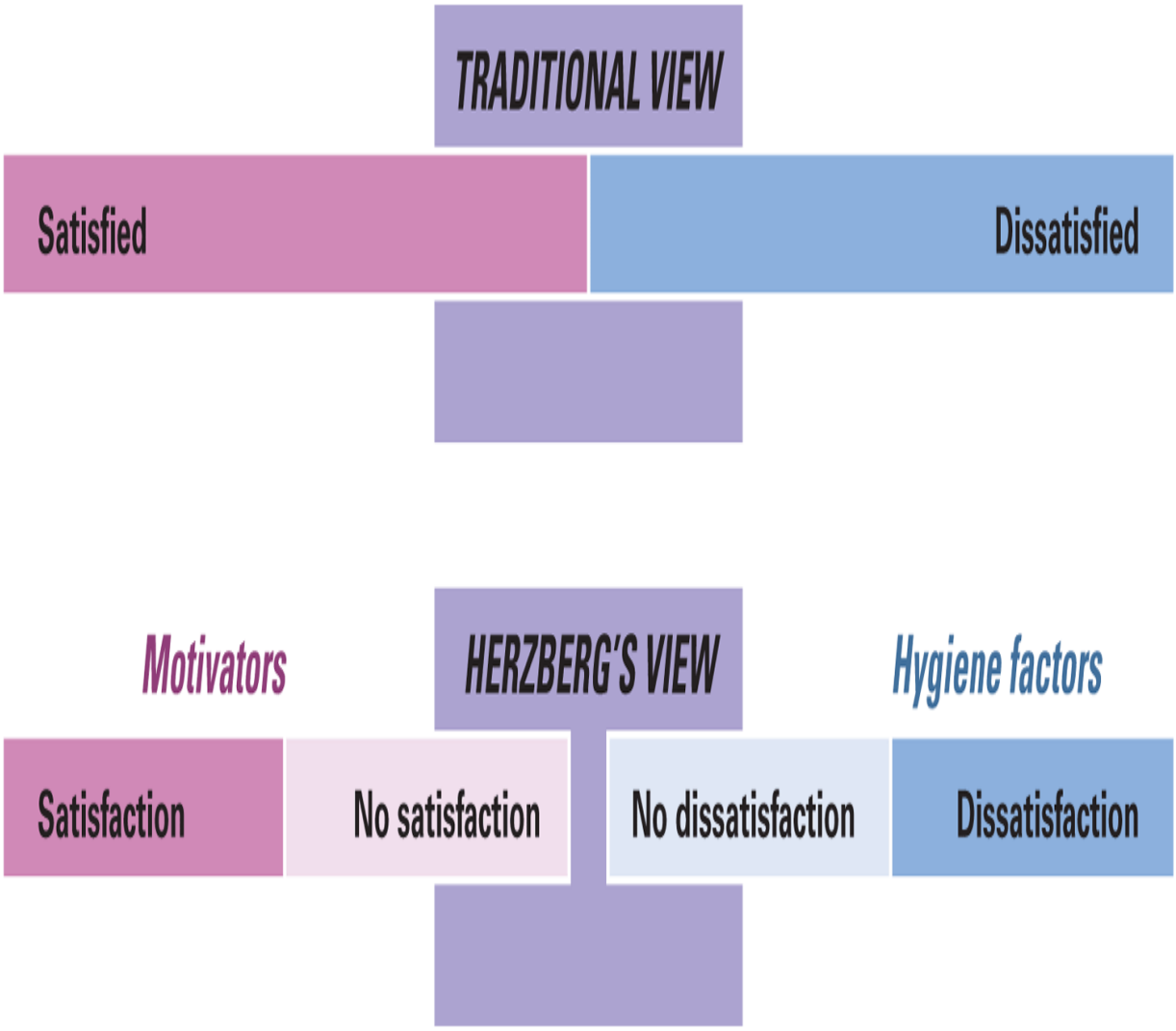


Figure 12.3 Contrasting views of satisfaction–dissatisfaction



Source: S. P. Robbins and M. Coulter, Management, 13th edn, © 2016, p. 465. Reprinted and electronically reproduced by permission of Pearson Education, Inc., New York.

two-factor theory

Herzberg's motivation theory, which proposes that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction

Herzberg concluded that job satisfaction and job dissatisfaction were two distinct constructs that each existed along a continuum: the opposite of ‘satisfaction’ is ‘no satisfaction,’ and the opposite of ‘dissatisfaction’ is ‘no dissatisfaction’. Additionally, the factors that led to job satisfaction were separate and distinct from those that led to job dissatisfaction. The extrinsic factors that create job dissatisfaction were called **hygiene factors**. When hygiene factors are missing or going poorly, people get annoyed, frustrated and dissatisfied. When these factors are adequate, people won’t be dissatisfied, but they won’t be satisfied either. As a simple example, people who work in office environments expect that when they get to work in the morning they can log onto their computer quickly and easily and get on with their work. If their computer takes 30 minutes to start up in the morning, they will quickly become annoyed and dissatisfied with their work environment. If the organisation then fixes the problem so their computer logs on within a minute or two, they will stop being frustrated and dissatisfied but they won’t then become very satisfied, committed and motivated about their jobs or their organisation.

hygiene factors

Factors that eliminate job dissatisfaction but don’t motivate

The implications for motivation are that if managers seek to eliminate or redress hygiene factors, they can keep people from being dissatisfied with their jobs and their organisations but that won't necessarily motivate them to work harder or achieve more. To motivate people, Herzberg suggested emphasising **motivators**, the intrinsic factors having to do with the job itself.

> ***motivators***
>
> Intrinsic factors that have to do with the job itself and serve to motivate individuals

Despite criticisms of his procedures and methodology, Herzberg's theory enjoyed wide popularity from the mid-1960s to the early 1980s and still influences how we currently design jobs.

The early theories of motivation provided a foundation for understanding human behaviour in the workplace and how managers might motivate greater efforts from employees. As we've noted, they still influence a lot of our thinking about how much autonomy and empowerment organisations should provide for employees, how closely employee efforts need to be supervised and controlled, and how job characteristics influence motivation. They've also provided the foundations for more contemporary theories of motivation, which we'll consider next.

Classic concepts in today's organisations: How can jobs be designed to make workers happy?

What *really* makes workers feel satisfied with their jobs?[17] That's what Frederick Herzberg and his associates wanted to find out. In the 1950s he began research to identify the kinds of things that made people at their work happy and satisfied or unhappy and dissatisfied. His discovery that job dissatisfaction and job satisfaction were the results of different aspects of the work environment gave practising managers new insights into both job context and job content. Essentially, if you want to motivate employees, you'd better focus more on the job content aspects (the motivators) than on the job context aspects (the hygiene factors).

In addition, Herzberg's research stimulated additional interest in work design. The job characteristics model, for one, built upon Herzberg's findings in identifying the five core job dimensions, especially autonomy. As managers and organisations continue to search for work designs that will energise and engage employees, Herzberg's study of when people felt good and felt bad at work continues as a classic.

Discuss this

- Which factors in the workplace and in job design are motivators for employees today?
- Which factors do you think are hygiene factors that people expect to get as ‘usual work conditions’ and will be annoyed about when they don’t?

How do the contemporary theories explain motivation?

Learning outcome 12.3 Compare and contrast contemporary theories of motivation.

The theories we look at in this section – goal setting, job design, equity and expectancy – represent current explanations of employee motivation. Although they may not be as well known as those we just discussed, these theories are backed by research.[18]

What is goal-setting theory?

> Goals CAN be **powerful motivators**!

Research on goal-setting theory shows that goal specificity, challenge and feedback significantly influence performance.[19] **Goal-setting theory** says that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals. Let's consider how goal-setting theory helps us understand people's motivation.

goal-setting theory
: The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals

- Working towards a goal is a major source of job motivation. Studies on goal setting have demonstrated that specific and challenging goals are superior motivating forces.[20] Such goals produce a higher output than does the generalised goal of 'do your best'. The specificity of the goal itself acts as an internal

stimulus. For example, when a sales rep commits to making eight sales calls per day, this intention gives them a specific goal to try to attain.

- Will employees try harder if they have the opportunity to participate in the setting of goals? Not always. In some cases, participatively set goals elicit superior performance; in other cases, individuals performed best when their manager assigned goals. However, employees are more likely to accept and support goals into which they had input, so if the goals are challenging, participation is prefereable.[21]
- We know that people will do better if they get feedback on how well they're progressing towards their goals, because feedback helps identify discrepancies between what they've done and what they want to do. But all feedback isn't equally effective. Self-generated feedback – where an employee monitors their own progress – has been shown to be a more powerful motivator than feedback coming from someone else.[22]

  Three other contingencies besides feedback influence the goal–performance relationship: goal commitment, adequate self-efficacy and national culture.

- Goal-setting theory assumes that an individual is committed to the goal. Commitment is most likely when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned.[23]
- **Self-efficacy** refers to an individual's belief that they are capable of performing a task.[24] The higher your self-efficacy, the more confidence you have in your ability to succeed in a task. So, in difficult situations, we find that people with low self-efficacy are

likely to reduce their effort or give up altogether, whereas those with high self-efficacy will try harder to master the challenge.[25] In addition, individuals with high self-efficacy seem to respond to negative feedback with increased effort and motivation, whereas those with low self-efficacy are likely to reduce their effort when given negative feedback.[26]

self-efficacy
An individual's belief that they are capable of performing a task

- The value of goal-setting theory depends on the national culture. It's well adapted to countries such as Australia and the United States because its main ideas align rather well with those cultures. It assumes that subordinates will be reasonably independent (not a high score on power distance), that people will seek challenging goals (low in uncertainty avoidance), and that performance is considered important by both managers and subordinates (high in assertiveness). Don't expect goal setting to lead to higher employee performance in countries where the cultural characteristics aren't like this.

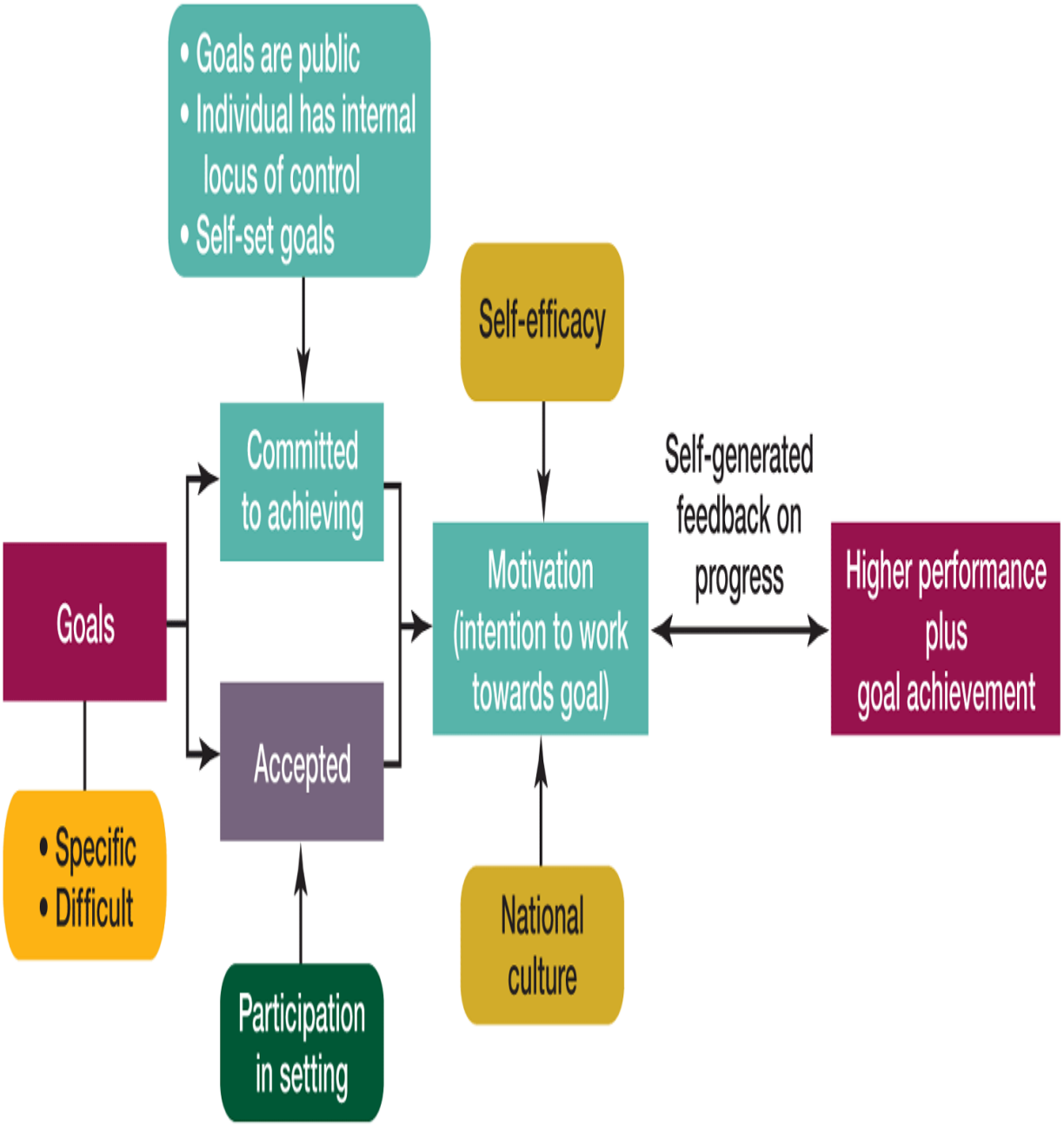
EXIT

Atlassian, an Australian software development company based in Sydney, keeps its staff motivated and challenged by letting employees combine work and their personal passions. For example, the company hosts hacking events at its Hack House, a beachside house in Sydney, where teams develop software while enjoying ‘sand, surf, beer and code’.

© *Atlassian*

Figure 12.4 summarises the relationships among goals, motivation and performance. Our overall conclusion: *The intention to work towards hard and specific goals is a powerful motivating force.* Under the proper conditions, it can lead to higher performance. However, there’s no evidence that such goals are associated with increased job satisfaction.[27]

Figure 12.4 Goal-setting theory


• Goals are public
• Individual has internal locus of control
• Self-set goals
Self-efficacy
Committed to achieving
Goals
Motivation (intention to work towards goal)
Self-generated feedback on progress
Higher performance plus goal achievement
Accepted
• Specific
• Difficult
National culture
Participation in setting

Managing for sustainability: Inspiring more sustainable actions

Managing for sustainability means motivating employees to develop and support sustainability initiatives. So, how can managers do this?[28] One way is by hiring people who are already passionate about sustainability and then providing opportunities for them to pursue that passion. For example, organisations can empower staff to develop more sustainable practices in their work area, such as reducing waste or designing more efficient processes. Another option is creating forums for employees to share ideas and suggestions for improving sustainability. Organisations can also motivate employees to contribute to sustainability by providing opportunities and resources that encourage sustainable behaviour – for example, by providing hybrid vehicles for employees to use as company cars, by locating offices close to public transport or bike paths, or by adjusting work hours so that employees can carpool to work. In addition, organisations can offer recognition and rewards for contributing to sustainability, such as publishing successful initiatives that employees have developed, having staff awards that recognise employees who help reduce the environmental impact of organisational activities, and linking employee

bonuses to the achievement of company goals for sustainability.

How does job design influence motivation?

> Yes – you can **design jobs** that motivate!

Because managers want to motivate individuals on the job, we need to look at ways to design motivating jobs. We use the term **job design** to refer to the way tasks are combined to form complete jobs. Managers should design jobs deliberately and thoughtfully to reflect the demands of the changing environment, the organisation's technology, and employees' skills, abilities and preferences.[29] When jobs are designed like that, employees are motivated to work hard.

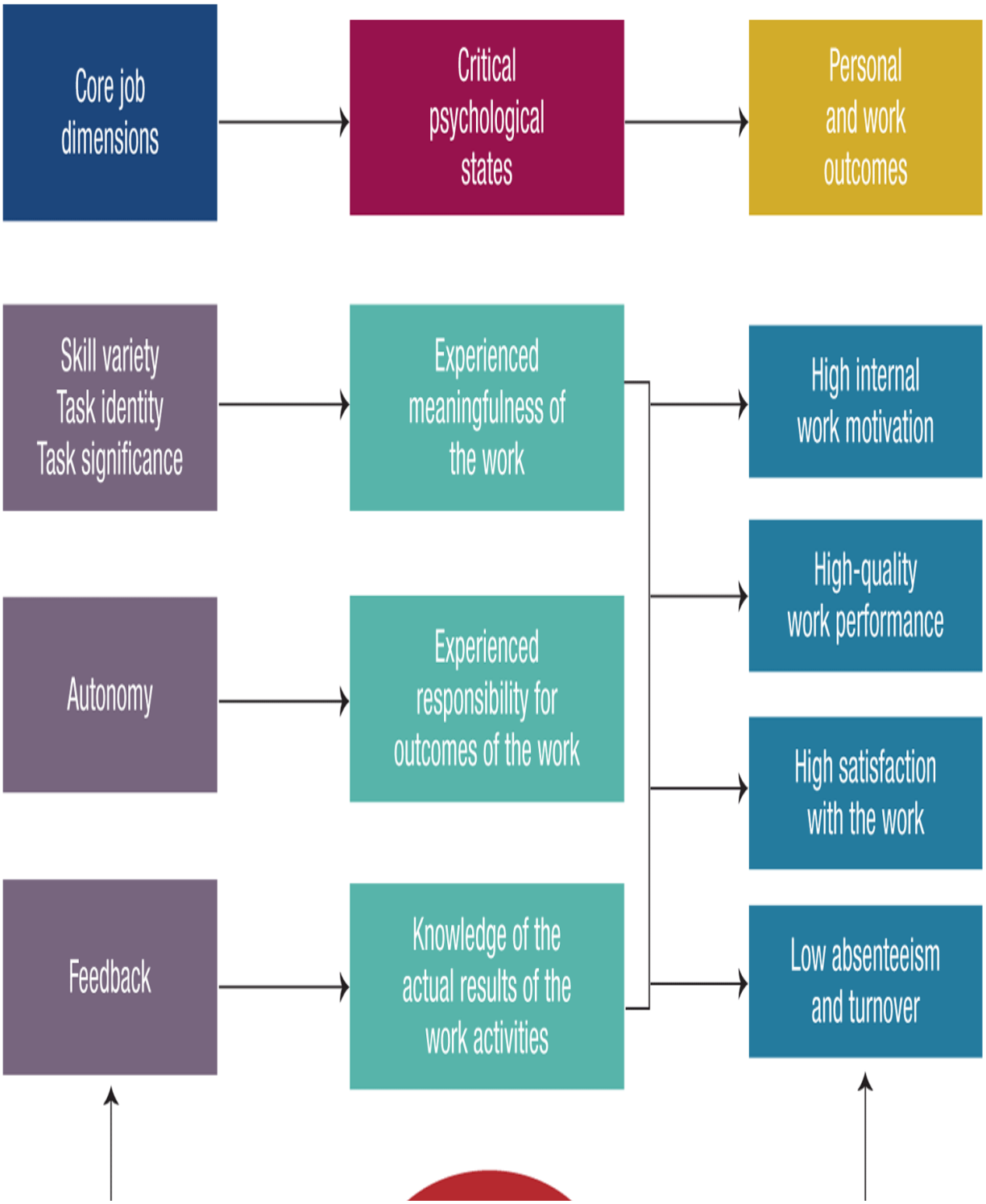
job design

The way tasks are combined to form complete jobs

The **job characteristics model (JCM)** developed by J. Richard Hackman and Greg R. Oldham tells managers which specific elements of job design they should focus on to enhance motivation.[30]

The JCM says jobs can be described in terms of the following five core job dimensions (see **Figure 12.5**):

Figure 12.5 Job characteristics model



Source: J. R. Hackman, 'Work Design', in J. R. Hackman and J. L. Suttle (eds), Improving Life at Work (Glenview, IL: Scott, Foresman, 1977), p. 129. With permission of the authors.

job characteristics model (JCM)

A framework for analysing and designing jobs that identifies five primary core job dimensions, their interrelationships and their impact on outcomes

The job of this paediatric nurse caring for newborn babies at a children's hospital in Germany scores high on task significance as she uses her specialised knowledge and skills in caring for children from infancy through the late teen years, and their families. Task significance contributes to the meaningfulness of her job and high internal work motivation.

Ulrich Baumgarten/Getty Images

- **Skill variety:** the degree to which the job requires a variety of activities so the worker can use a number of different skills and

talents.

- **Task identity:** the degree to which the job requires completion of a whole and identifiable piece of work.
- **Task significance:** the degree to which the job affects the lives or work of other people.
- **Autonomy:** the degree to which the job provides freedom, independence and discretion to the individual in scheduling the work and in determining the procedures to be used in carrying it out.
- **Feedback:** the degree to which carrying out the work activities required by the job results in the individual's obtaining direct and clear information about the effectiveness of their performance.

The first three dimensions – skill variety, task identity and task significance – combine to create meaningful work. If these three characteristics exist in a job, we can predict that the person performing the job will view it as being important, valuable and worthwhile. Jobs that possess autonomy give the job incumbent a feeling of personal responsibility for the results and that, if a job provides feedback, the employee will know how effectively they are performing. So, according to the JCM, the degree to which a job makes it possible for an employee to *learn* (gain knowledge of results through feedback) that they *personally* (experienced responsibility through autonomy of work) have performed well on a task that they *care* about (experienced meaningfulness through skill variety, task identity and/or task significance), the stronger their motivation, performance and satisfaction will be and the lower their absenteeism and the likelihood of resigning.

Using the JCM, managers can tailor job characteristics to individual employees to make their work more rewarding.[31] Combining tasks increases skill variety and task identity. Forming natural work teams increases task identity and task significance. Expanding jobs vertically increases autonomy. Establishing client relationships improves skill variety and fosters feedback. Feedback can also be enhanced by opening feedback channels. However, the links between the job dimensions and the outcomes are moderated by the strength of the individual's growth need (the person's desire for self-esteem and self-actualisation). Individuals with a high growth need are more likely to experience the critical psychological states and to respond positively when their jobs include the core dimensions than are individuals with a low growth need. This distinction may explain the mixed results with **job enrichment** (vertical expansion of a job by adding planning and evaluation responsibilities): individuals with low growth need don't tend to achieve high performance or satisfaction by having their jobs enriched. So, managers who want to enhance employee motivation can do that using the JCM, but only for employees with high growth needs.

job enrichment

The vertical expansion of a job by adding planning and evaluation responsibilities

What is equity theory?

Do you ever wonder what kind of mark the person sitting next to you in class gets on a test or on a major class assignment? Most of us do! Being human, we tend to compare ourselves with others. **Equity theory**, developed by J. Stacey Adams, proposes that employees compare what they get from a job (outcomes) in relation to what they put into it (inputs) and then compare their inputs–outcomes ratio with the inputs–outcomes ratios of relevant others (see **Table 12.1**).

Table 12.1 Equity theory relationships

*A is the employee, and B is a relevant other or referent.

> ***equity theory***
> The theory that an employee compares their job's input-to-outcome ratio with that of relevant others and then corrects any inequity

The term *equity* is related to the concept of fairness and equitable treatment compared with others who behave in similar ways. There is

considerable evidence that employees compare themselves to others and that inequities influence how much effort employees exert.[32] If an employee perceives their ratio to be equitable in comparison to those of relevant others, there's no problem. However, if the ratio is inequitable, they view themself as either under-rewarded or over-rewarded.

Imagine you found yourself in the following situation. You graduate from university and someone offers you a job paying $50,000 a year. You'd probably jump at the offer. How would you react, though, if you found out a month into the job that a colleague – another recent graduate, your age, with comparable marks from a comparable university and with comparable work experience – was getting $55,000 a year? You'd probably be upset! Even though in absolute terms $50,000 is a lot of money for a new graduate to make (and you know it!), that suddenly isn't the issue. Now you see the issue as what you believe is *fair* – what is *equitable*.

When inequities occur, employees attempt to do something about it.[33] For example, an employee who thinks they are under-rewarded might try to fix that inequity by reducing the amount of effort they put into their work to a level they think reflects the level of reward they receive. Or they might try to increase their rewards by negotiating a pay increase. If they perceive that the inequity can't be changed, they might seek a job at another organisation that provides more equitable rewards.

The **referent** – the other persons, systems or selves that individuals compare themselves against in order to assess equity – is an important variable in equity theory.[34] Each of the three referent categories is important. (1) The 'persons' category includes other individuals with similar jobs in the same organisation, but also includes friends, neighbours or professional associates. Based on what they hear at work or read about in newspapers or trade journals, employees compare their pay with that of others. (2) The 'system' category includes organisational pay policies, procedures and allocation. (3) The 'self' category refers to inputs–outcomes ratios that are unique to the individual. It reflects past personal experiences and contacts and is influenced by criteria such as past jobs or family commitments.

referent

The persons, systems or selves against which individuals compare themselves to assess equity

Originally, equity theory focused on **distributive justice**, which is the perceived fairness of the amount and allocation of rewards among individuals. More recent research has focused on looking at issues of **procedural justice**, which is the perceived fairness of the process used to determine the distribution of rewards. This

research shows that distributive justice has a greater influence on employee satisfaction than procedural justice, while procedural justice tends to affect an employee's organisational commitment, trust in their boss and intention to quit.[35] The implications for managers are that they should openly share information on how allocation decisions are made, follow consistent and unbiased procedures, and engage in similar practices to increase the perception of procedural justice. By increasing the perception of procedural justice, employees are likely to view their bosses and the organisation as positive even if they are dissatisfied with pay, promotions and other personal outcomes.

distributive justice

Perceived fairness of the amount and allocation of rewards among individuals

procedural justice

Perceived fairness of the process used to determine the distribution of rewards

How does expectancy theory explain motivation?

- How hard do I have to work to achieve a certain level of performance?
- Can I actually do that?
- What reward will I get for reaching it?
- How much do I want that reward?

The most comprehensive explanation of how employees are motivated is Victor Vroom's **expectancy theory**.[36] Although the theory has its critics,[37] most research evidence supports it.[38] Expectancy theory states that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. It includes three variables or relationships (see **Figure 12.6**):

- *Expectancy or effort–performance linkage* is the probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance. In other words, how hard do I have to work to achieve a certain level of performance, and can I actually achieve that level?
- *Instrumentality or performance–reward linkage* is the degree to which the individual believes that performing at a particular level

will attain a desired outcome. In simple terms, what reward will performing at that level of performance get me?

- *Valence or attractiveness of reward* is the importance that the individual places on the potential outcome or reward that can be achieved on the job. Valence considers both the goals and the needs of the individual. This means: how attractive is the reward to me, and does it help me to achieve my own personal goals?

Figure 12.6 Expectancy model

expectancy theory

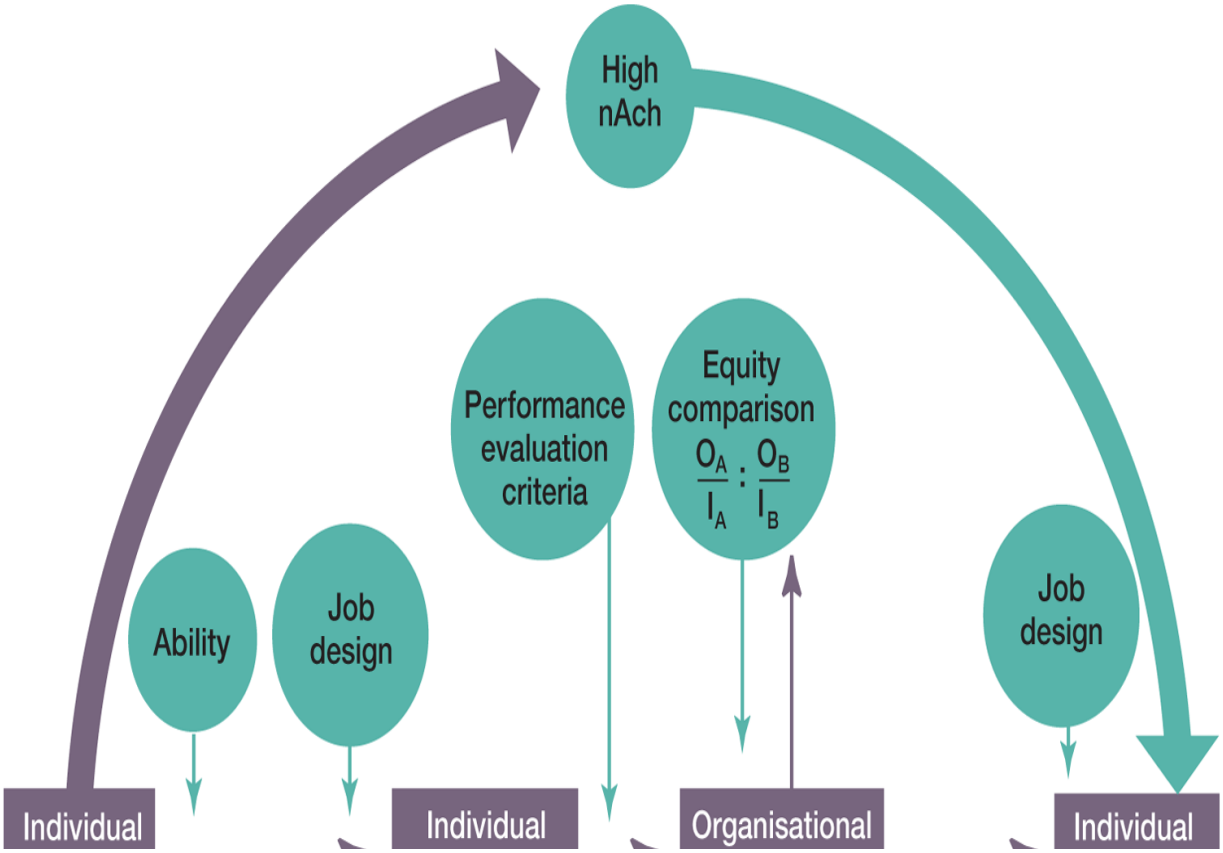
The theory that an individual tends to act in a certain way, based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual

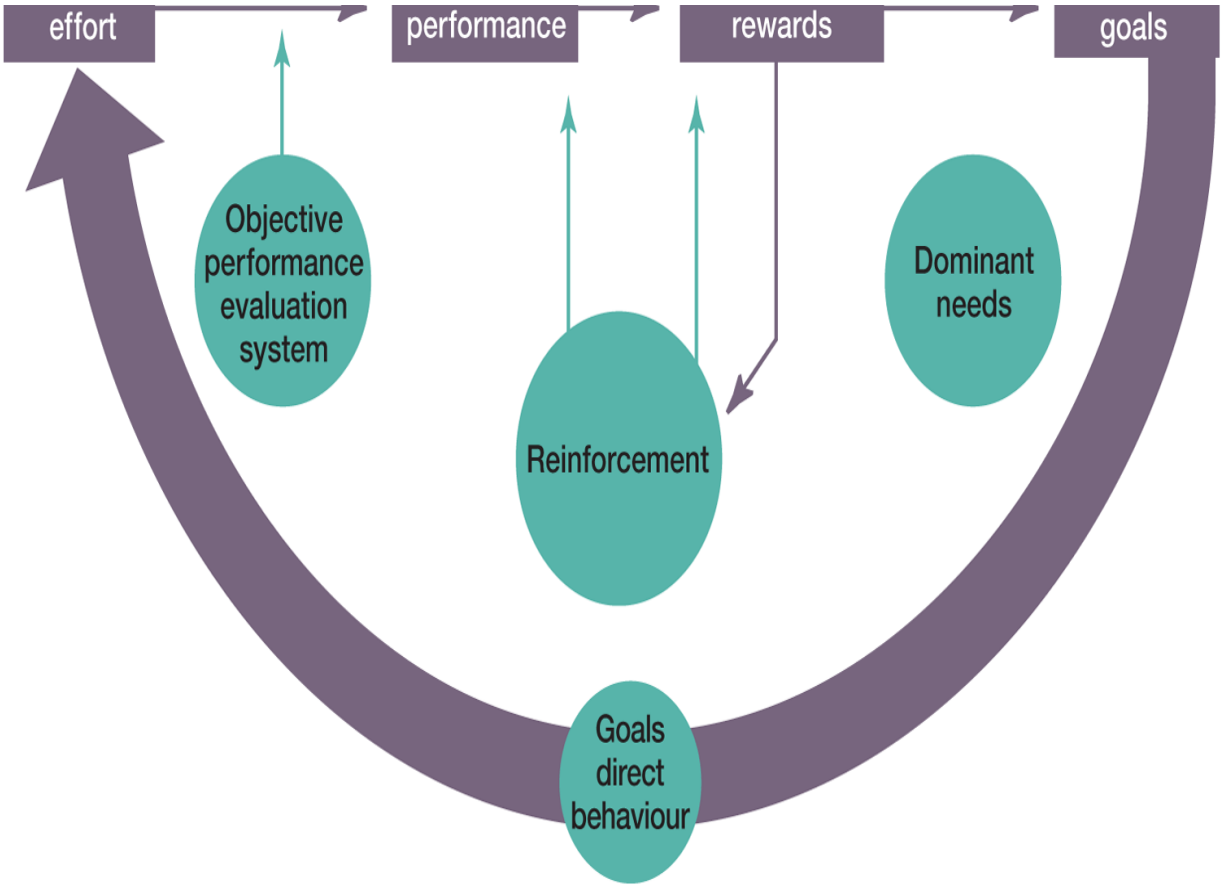
The key to expectancy theory is understanding an individual's goal and the linkages between effort and performance, between performance and rewards, and finally, between rewards and individual goal satisfaction. Expectancy theory recognises that there is no universal principle for explaining what motivates individuals and thus stresses that managers should strive to understand why employees view certain outcomes as attractive or unattractive. After all, we want to reward individuals with those things they value positively. Also, expectancy theory emphasises expected behaviours. Do employees know what is expected of them and how they'll be evaluated? Finally, the theory is concerned with perceptions. An individual's own *perceptions* of performance, reward and goal outcomes will determine their motivation and level of effort.

How can we integrate contemporary motivation theories?

Many of the ideas underlying the contemporary motivation theories are complementary, and you'll understand better how to motivate people if you see how the theories fit together.[39] **Figure 12.7** presents a model that integrates much of what we know about motivation. Its basic foundation is the expectancy model. Let's work through the model, starting on the left.

Figure 12.7 Integrating contemporary theories of motivation





- The individual effort box has an arrow leading into it from the individual's goals. Consistent with *goal-setting theory*, this illustrates that goals direct behaviour.
- *Expectancy theory* predicts that an employee will exert a high level of effort if they perceive a strong relationship between effort and performance, performance and rewards, and rewards and satisfaction of personal goals. Each of these relationships is, in turn, influenced by certain factors. You can see from the model that the level of individual performance is determined not only by the level of individual effort but also by the individual's ability to perform and by whether the organisation has a fair and objective performance evaluation system. The performance–reward

relationship will be strong if the individual perceives that it is performance (rather than seniority, personal favourites or some other criterion) that is rewarded. The final link in expectancy theory is the rewards–goal relationship.

- The *traditional need theories* come into play at this point. Motivation would be high to the degree that the rewards an individual received for their high performance satisfied the dominant needs consistent with their individual goals.

A closer look at the model also shows that it considers other theories.

- *Achievement-need* is seen in that the high achiever isn't motivated by the organisation's assessment of their performance or organisational rewards, hence the jump from effort to individual goals for those with a high nAch. Remember that high achievers are internally driven as long as the jobs they are doing provide them with personal responsibility, feedback and moderate risks. They're not concerned with the effort–performance, performance–reward or rewards–goals linkages.
- *Reinforcement theory* is seen in the model by recognising that the organisation's rewards reinforce the individual's performance. If managers have designed a reward system that is seen by employees as 'paying off' for good performance, the rewards will reinforce and encourage continued good performance.
- Rewards also play a key part in *equity theory*. Individuals will compare the rewards (outcomes) they have received from the inputs or efforts they made with the inputs–outcomes ratio of relevant others. If inequities exist, the effort expended may be influenced.

- Finally, drawing from the JCM, task characteristics (job design) influence job motivation at two places. First, jobs that are designed around the five job dimensions are likely to lead to higher actual job performance because the individual's motivation will be stimulated by the job itself – that is, they will increase the linkage between effort and performance. Second, jobs that are designed around the five job dimensions also increase an employee's control over key elements in their work. Therefore, jobs that offer autonomy, feedback and similar task characteristics help to satisfy the individual goals of employees who desire greater control over their work.

What contemporary motivation issues do managers face?

Learning outcome 12.4 Discuss contemporary issues in motivating employees.

The theories we've discussed so far focus on motivation in general circumstances. We'll finish the chapter by discussing some specific motivation challenges faced by today's managers – motivating in tough economic circumstances, managing cross-cultural challenges, motivating unique groups of workers and designing appropriate rewards programs.

How can managers motivate employees during difficult economic times?

During times of economic and financial uncertainty, employees often feel less connected to their work and managers have fewer options for using financial rewards to motivate and reward extra effort. But there are other ways managers can maintain – and maybe even increase – employees' motivation levels. One is to clarify each person's role in the organisation; to show them how their efforts are contributing to improving the company's overall situation. Another is to keep communication lines open and use two-way exchanges between top-level managers and employees to soothe fears and concerns and to show workers that the organisation cares about them.

Rethinking management in a global crisis: Effort–reward imbalance

In the first year of the COVID-19 pandemic, the Australian federal government reimbursed eligible businesses and not-for-profit organisations $1,500 per fortnight towards the wage costs of every employee who was employed by the organisation (1) on 1 March 2020 and (2) during the wage period being reimbursed. Known as the JobKeeper wage subsidy, the scheme was intended to help employers keep their employees and employees keep their jobs, even if organisational revenues had dropped right off due to the pandemic.[40]

But like many forms of economic activity, the JobKeeper had some unintended consequences! Some employees saw the JobKeeper payment as an entitlement, rather than as compensation for effort, and refused to work or to work more than minimum hours while demanding to be paid the full $1,500. One business owner recalled, ‘One of our young casuals, who does 10 hours a week, said: “I’m entitled to it . . . to go to the bank and get my money.”’

Other workers who had previously earned less than $1,500 per fortnight now received far higher rewards for their efforts! Brittany

Garbutt, owner of Pretzel in Perth, realised her small staff of casual workers ‘had never even seen $1,500 before’, so to help them appreciate this windfall she encouraged them to donate their time to local charities and COVID-related community initiatives so they could ‘pay the money back’ to their community.

How does country culture affect motivation efforts?

> The desire for **interesting work** seems to be global.

Most current motivation theories were developed in the United States by Americans and about Americans.[41] Perhaps the most blatant pro-American characteristic in these theories is the strong emphasis on individualism and achievement. So, to use these theories effectively in multicultural and international contexts, managers need to be aware of their cross-cultural transferability.

Maslow's needs hierarchy argues that people start at the physiological level and then move progressively up the hierarchy in order. This hierarchy aligns with American culture. In countries such as Japan, Greece and Mexico, where uncertainty avoidance characteristics are strong, security needs would be on top of the needs hierarchy. Countries that score high on nurturing characteristics – Denmark, Sweden, Norway, the Netherlands and Finland – would have social needs on top.[42] We would predict, for example, that group work will be more motivating when the country's culture scores high on the nurturing criterion.

Achievement need is another motivation concept that clearly has an American bias. The view that a high achievement need acts as an internal motivator presupposes two cultural characteristics – a

willingness to accept a moderate degree of risk (which excludes countries with strong uncertainty avoidance characteristics) and a concern with performance (which applies almost singularly to countries with strong achievement characteristics). This combination is found in countries such as Australia, New Zealand, the United States, Canada and Great Britain.[43] On the other hand, these characteristics are relatively absent in countries such as Chile and Portugal.

Equity theory has a relatively strong following in countries such as Australia, Britain and the United States that use reward systems based on the assumption that workers are highly sensitive to equity in reward allocations. In these countries, equity is meant to closely link pay to performance. However, recent evidence suggests that in collectivist cultures, especially in the former socialist countries of Central and Eastern Europe, employees expect rewards to reflect their individual needs as well as their performance.[44] Moreover, consistent with a legacy of communism and centrally planned economies, employees exhibited a greater 'entitlement' attitude – that is, they expected outcomes to be greater than their inputs.[45] These findings suggest that US-style pay practices may need to be modified in some countries in order to be perceived as fair by employees.

Nevertheless, there are some cross-cultural consistencies in motivation. For example, the desire for interesting work seems important to almost all workers, regardless of their national culture. In a study of workers from seven countries in which employees ranked 11 work goals in order of importance, 'interesting work' ranked first,

second or third in all seven countries.[46] In a study comparing job-preference outcomes among graduate students in Australia, the United States, Canada and Singapore, growth, achievement and responsibility were rated the top three outcomes and had identical rankings.[47] These studies, and another examining workplace motivation trends in Japan,[48] seem to indicate that the intrinsic factors identified by Herzberg may be, to some extent, universal.

How can managers motivate unique groups of workers?

Motivating employees has never been easy! Employees come into organisations with different needs, personalities, skills, abilities, interests and aptitudes. They differ in their expectations of their employers and what they think their employer has a right to expect of them. And they vary widely in what they want from their jobs. Some employees ‘work to live’: their jobs provide a pay cheque, and they use other interests and pursuits for stimulation. Others ‘live to work’: their work is rewarding in many ways and they invest a lot of time and energy into it. Understanding what motivates different types of employees in today’s workforce helps managers work out how to leverage that motivation for their organisations. In this section, we’ll examine motivations for diverse employees, professionals and contingent workers.

Motivating a diverse workforce

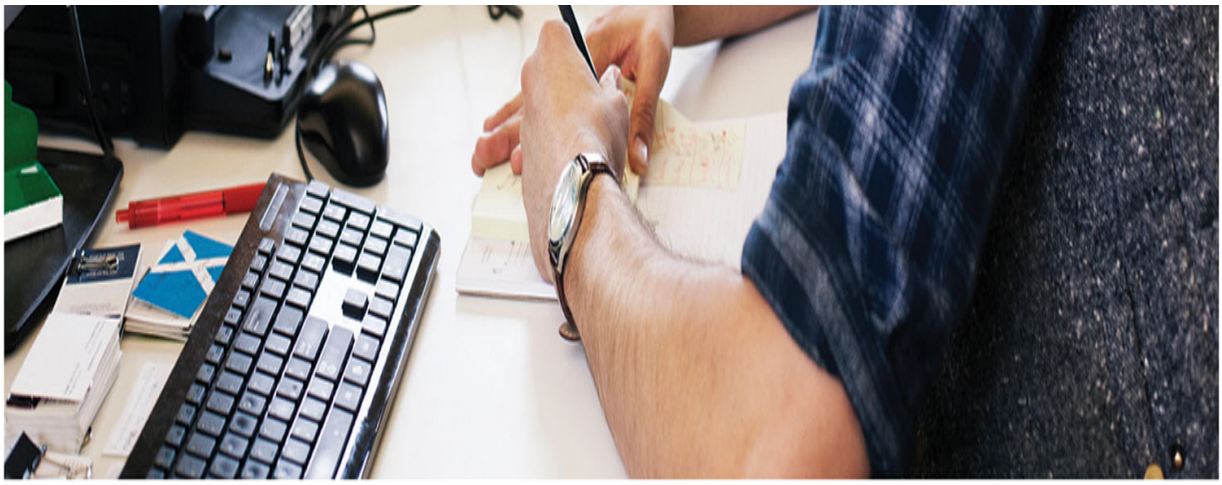
One of a manager’s more important goals is helping employees to develop their potential.[49] This is particularly important in managing diverse employees who can bring new perspectives and ideas to the organisation business.

To ensure that all employees have the opportunity to develop their potential, managers should ensure that diverse role models are in leadership positions so that others see the organisation will offer them opportunities to grow and advance. Giving motivated, talented, hard-working and enthusiastic employees opportunities to excel in decision-making roles can be a powerful motivator to other employees to work hard to develop their own potential.

Another way for managers to be inclusive to people from all backgrounds is to offer developmental work assignments that provide a variety of learning experiences in different organisational areas. Employees who are provided the opportunity to learn new processes and new technologies are more likely to excel at their work and to stay with the organisation.

To maximise motivation among today's workforce, managers need to think in terms of *flexibility*. For example, studies tell us that men place more importance on having autonomy in their jobs than do women. In contrast, the opportunity to learn, convenient and flexible work hours, and good interpersonal relations are more important to women.[50] Having the opportunity to be independent and to be exposed to different experiences is important to Gen Y employees, whereas older workers may be more interested in highly structured work opportunities.[51] Managers need to recognise that what motivates a single parent with two dependent children who is working full time to support their family may be very different from the needs of a single part-time employee or an older employee who is working only to supplement their retirement income. A diverse array of rewards is

needed to motivate employees with such diverse needs. Many of the work/life balance programs (see the chapter on managing human resources) that organisations have implemented are a response to the varied needs of a diverse workforce. In addition, many organisations have developed flexible work arrangements (see the chapter on organisational structure and design) that recognise different needs.



Some organisations are motivating their staff by being flexible about how much time people actually spend at work. Some are being flexible about start and finish times, and others are even letting their staff work a compressed work day. This means working a five- or six-hour work day without breaks (but full salary!) so they can finish their day by mid-afternoon. These organisations are finding that shorter work days result in more focused and productive efforts, while also rewarding staff with better work/life balance.

Cavan Images /Alamy Stock Photo

Managing for diversity and inclusion: Equal rewards for equal work?

> The recognition and rewards that employees receive send powerful signals about how much the organisation values their efforts. Likewise, whether all kinds of employees receive the same rewards for doing the same work sends powerful signals about whether managers and organisations really do value employee diversity. Australian legislation requires that all employees receive the same pay for doing the same job, regardless of their gender, ethnicity or sexual orientation. Despite this, gender-based pay gaps continue. In 2017, the Australian Football League (AFL) launched the inaugural Women's Football League (AFLW) with an eight-week season featuring games between eight women's teams.[53] Although games in the women's league would be played exactly the same way as games in the men's league, players in the women's league received far lower compensation than their male counterparts. The highest salaries paid to female players were just under $28,000, while most received $8,500 for the season. The average individual salary for male players was $300,000. In 2019, the AFL extended the AFLW season to 20 weeks but the pay gap widened even further: the top female

> players would now earn $24,600, but the average salary for male players was now $371,000.
>
> As the Australian government's Workplace Gender Equality Agency director Libby Lyons explained, 'No matter the workplace, women should be paid the same as men for doing the same job . . . By not paying male and female players equally, employers send a message to young girls and women that they are not as highly valued as men even when they are the top of their field.'

Motivating professionals

Professionals are different from non-professionals.[54] They have a strong and long-term commitment to their field of expertise. To keep current in their field, they need to regularly update their knowledge, and because of their commitment to their profession they rarely define their work week as 8 am to 5 pm five days a week. What special concerns should managers be aware of when trying to motivate a team of engineers at Intel's India Development Center, or a group of consultants at Accenture in Singapore?

Well, for many professionals, their chief reward is the work itself. Professional workers are often intrinsically motivated to work hard and produce impressive results. They expect to be recognised and to be rewarded well for their work. They particularly value opportunities to keep developing and honing their expertise. They generally won't stay long in jobs that don't offer many learning opportunities, because they will either become bored or they will look for other jobs that help

them keep their ‘edge’. And it’s relatively easy for them to find other jobs that will. So, managers who offer professional workers high salaries but little job variety will probably find themselves dealing with high turnover.

Netflix, the online entertainment company, has developed a distinctive way of dealing with this challenge.[55] Netflix believes that ‘[t]he best thing you can do for employees is hire only “A” players to work alongside them. Excellent colleagues trump everything else.’ Team leaders are expected to ‘hire, develop and cut smartly so we have stars in every position’. To test how well they do this, leaders are expected to apply the ‘Keeper Test’ and ask themselves, ‘Which of my people, if they told me they were leaving for a similar job at another company, would I fight to keep?’

Unlike many other companies, Netflix doesn’t use performance bonuses. Instead, it uses ‘market-based pay’, which it defines as paying people ‘at the top of the market for that person’. Netflix calculates the market-based pay for each employee by asking three questions:

- What would the person get paid if they worked at another company?
- What would Netflix pay to replace them?
- What would Netflix pay to keep the employee if they were offered more money elsewhere?

Netflix is so committed to the market-based pay concept that it actually encourages employees to find out what salaries they could get at rival firms. This way, employees know how their compensation from Netflix compares with the going market rate.

Motivating contingent workers

As full-time jobs have been eliminated through downsizing and other organisational restructurings, the number of openings for part-time, contract and other forms of temporary work have increased. **Contingent workers** fill these openings by being available to work for organisations on an as-needed basis. They don't have the security or stability that permanent employees have, and they don't identify with the organisation or display the commitment that other employees do.

> ***contingent workers***
>
> Part-time, temporary and contract workers who are available for hire on an as-needed basis.

There's no simple solution for motivating contingent employees. For that small set of individuals who prefer the freedom of their temporary status, the lack of stability may not be an issue. In addition,

temporariness might be preferred by highly compensated physicians, engineers, accountants or financial planners who don't want the demands of a full-time job. But these are the exceptions. For the most part, temporary employees aren't temporary by choice.

What will motivate involuntarily temporary employees? An obvious answer is the opportunity to become a permanent employee. In cases in which permanent employees are selected from a pool of temps, the temps will often work hard in hopes of becoming permanent. A less obvious answer is the opportunity for training. The ability of a temporary employee to find a new job is largely dependent on their skills. If an employee sees that the job they are doing can help develop marketable skills, then motivation is increased. From an equity standpoint, when temps work alongside permanent employees who earn more and get benefits too for doing the same job, the performance of temps is likely to suffer. Separating such employees, or perhaps minimising interdependence between them, might help managers counteract potential problems.[56]

How can managers design appropriate rewards programs?

There's no doubt that employee rewards programs play a powerful role in motivating appropriate employee behaviour. Two of the more popular rewards programs are employee recognition and pay-for-performance.

How can managers use employee recognition programs?

Employee recognition programs consist of personal attention and expressions of interest, approval and appreciation for a job well done.[57] There are many ways managers can recognise great effort from employees and show them that they are valued, but it's important to tailor the gesture to the person. A shy or introverted employee might appreciate a private congratulations such as a handwritten note or email message. Employees with a strong need for social acceptance may prefer to be publicly recognized for accomplishments. For employees who work in teams, a collective celebration may be more suitable, such as a morning tea to celebrate a team's accomplishments. Employees who go 'above and beyond' may appreciate being paid back in kind. For example, at the Marble Group recruitment company, staff who meet performance targets are

rewarded by being allowed to finish work at lunchtime on Fridays.[58] But recognition doesn't have to come only from managers. Some 35 per cent of companies encourage workers to recognise peers for outstanding work efforts.[59] At medical recruitment company Wavelength International, employees can Send A Wave to any individual who has demonstrated the company values of 'Going Above and Beyond' and doing something they can be proud of. Each employee is given 400 Wave points per financial quarter to send to fellow Wavies, and points are allocated to an individual's Wavelength Visa Rewards cards.[60]

Naomi Simson, founder of gift-giving company RedBalloon, believes strongly in the power of employee recognition. So much so, that she founded her own digital recognition and reward platform, **Redii.com**,

which harnesses the power of social and mobile recognition to recognise and reward employees.

Courtesy of Naomi Simson

> ***employee recognition programs***
> Programs that consist of personal attention and expressions of interest, approval and appreciation for a job well done

How can managers use pay-for-performance to motivate employees?

Here's a survey statistic that may surprise you: 40 per cent of employees see no clear link between performance and pay.[61] This tells us that the organisations they work for are not clearly communicating performance expectations.[62] **Pay-for-performance programs** are variable compensation plans that pay employees on the basis of some performance measure.[63] Piece-rate pay plans, wage incentive plans, profit sharing and lump-sum bonuses are examples. What differentiates these forms of pay from more traditional compensation plans is that instead of paying a person for time on the job, pay is adjusted to reflect some performance measure. These performance measures might include such things as

individual productivity, team or work group productivity, departmental productivity or the overall organisation's profit performance.

pay-for-performance programs
: Variable compensation plans that pay employees on the basis of some performance measure

A question of ethics: Promises and paybacks

Many organisations use the promise of future rewards to motivate extra efforts by workers. But that can raise some ethical dilemmas, as the following example illustrates.

When difficult economic times cause patronage and revenues to plummet, the food and beverage manager of a large hotel decides to revitalise one of the hotel's restaurants in the hope that it will attract new custom. Keen to generate some new and fresh ideas, she contacts several of her casual workers and offers them the opportunity to be involved in developing concepts for the new décor, menus and customer experience that the restaurant will offer. When they ask if they will be paid for their contribution, she explains that she cannot pay them for developing the new ideas but if they contribute then she will be able to give them paid work when the new restaurant is launched. Several of the staff are unhappy about the idea of working for free, but are concerned that if they don't assist they will miss out on future income.

Discuss this

- What ethical issues do you see in this situation?

- What stakeholders might be impacted by the manager's decision? How might they be impacted?

Pay-for-performance is probably most compatible with expectancy theory. For motivation to be maximised, individuals should perceive a strong relationship between their performance and the rewards they receive. If rewards are allocated only on non-performance factors – such as seniority, job title or across-the-board pay raises – then employees are likely to reduce their efforts. From a motivation perspective, making some or all of an employee's pay conditional on some performance measure focuses their attention and effort towards that measure, then reinforces the continuation of the effort with a reward. If the employee, team or organisation's performance declines, so does the reward. Thus, there's an incentive to keep efforts and motivation strong.

Do pay-for-performance programs work? For the most part, studies seem to indicate that they do. For example, one study found that companies that used pay-for-performance programs performed better financially than those that didn't.[64] Another study showed that pay-for-performance programs with outcome-based incentives had a 'positive impact on sales, customer satisfaction, and profits'.[65] If an organisation uses work teams, managers should consider group-based performance incentives that will reinforce team effort and commitment. But whether these programs are individually based or team based, managers need to ensure that they're specific about the relationship between an individual's pay and their expected level of

appropriate performance. Employees must clearly understand exactly how performance – theirs and the organisation's – translates into dollars in their bank accounts.[66]

It can be tempting to assume that offering a range of incentives and rewards is a guaranteed way to improve productivity. But as equity theory reminds us, productivity can be decreased if employees perceive they aren't being treated fairly or equally. For this reason, managers have to be very careful not to introduce incentives or rewards that actually create inequitable situations. For example, if a manager introduces commissions to reward sales performance, they need to consider whether all sales staff will be offered commission-based pay. If commissions are only offered to some sales teams, this could create more problems than it solves. Staff being paid on commission may feel they are being put in an unfair position because their pay will vary while other employees will be on a set salary. Those who won't be working for commissions may feel they are being denied opportunities to increase their income. Resentment may develop, morale could decline and productivity could be lost. So, managers need to be really clear about what they are offering, who it is being offered to and what the consequences might be.

Review

Chapter 12 summary

12.1 Define and explain motivation.
Motivation is the process by which a person's efforts are energised, directed and sustained towards attaining a goal.

The *energy* element is a measure of intensity or drive. The high level of effort needs to be *directed* in ways that help the organisation achieve its goals. Employees must *persist* in putting forth effort to achieve those goals.

12.2 Compare and contrast early theories of motivation.
Individuals move up the hierarchy of five needs (physiological, safety, social, esteem and self-actualisation) as needs are substantially satisfied. A need that's substantially satisfied no longer motivates.

Three-needs theory proposed three acquired needs that are major motives in work: need for achievement, need for affiliation and need for power.

A Theory X manager believes that people don't like to work, or won't seek out responsibility, so they have to be threatened and coerced to work. A Theory Y manager assumes that people like to work and seek out responsibility, so they will exercise self-motivation and self-direction.

Herzberg's theory proposed that intrinsic factors associated with job satisfaction were what motivated people. Extrinsic factors associated with job dissatisfaction simply kept people from being dissatisfied.

12.3 Compare and contrast contemporary theories of motivation. Goal-setting theory says that specific goals increase performance, and difficult goals, when accepted, result in higher performance than do easy goals. Important points in goal-setting theory include: intention to work towards a goal is a major source of job motivation; specific hard goals produce higher levels of output than generalised goals; participation in setting goals is preferable to assigning goals, but not always; feedback, especially self-generated feedback, can guide and motivate behaviour; and contingencies that affect goal setting include goal commitment, self-efficacy and national culture.

The job characteristics model is based on five core job dimensions (skill variety, task identity, task significance, autonomy and feedback) that are used to design motivating jobs.

Equity theory focuses on how employees compare their inputs–outcomes ratios to relevant others' ratios. A perception of inequity will cause an employee to do something about it. Distributive justice has a greater influence on employee satisfaction than does procedural justice.

Expectancy theory says that an individual tends to act in a certain way based on the expectation that the act will be followed by a desired outcome. Expectancy is the effort–performance linkage

(How much effort do I need to exert to achieve a certain level of performance?); instrumentality is the performance–reward linkage (Achieving at a certain level of performance will get me what reward?); and valence is the attractiveness of the reward (Is the reward what I want?).

12.4 Discuss contemporary issues in motivating employees.
During rough economic conditions, managers must look for creative ways to keep employees' efforts energised, directed and sustained towards achieving goals.

Most motivational theories were developed in the United States and have a North American bias. Some theories (Maslow's needs hierarchy, achievement need and equity theory) don't work well for other cultures. However, the desire for interesting work seems important to all workers and Herzberg's motivator (intrinsic) factors may be universal.

Managers face challenges in motivating unique groups of workers. A diverse workforce is looking for flexibility. Professionals want job challenge and support, and are motivated by the work itself. Contingent workers want the opportunity to become permanent or to receive skills training.

Employee recognition programs consist of personal attention, approval and appreciation for a job well done. Pay-for-performance programs are variable compensation plans that pay employees on the basis of some performance measure.

Discussion questions

12.1 Most of us have to work for a living, and a job is a central part of our lives. So, why do managers have to worry so much about employee motivation issues?
12.2 What is motivation? Explain the three key elements of motivation.
12.3 Contrast lower-order and higher-order needs in Maslow's needs hierarchy.
12.4 What role would money play in (a) the hierarchy of needs theory, (b) two-factor theory, (c) equity theory, (d) expectancy theory, and (e) motivating employees with a high nAch?
12.5 What are some of the possible consequences of employees perceiving an inequity between their inputs and outcomes and those of others?
12.6 What are some advantages of using pay-for-performance programs to motivate employee performance? Are there drawbacks? Explain.
12.7 Many job design experts who have studied the changing nature of work say that people do their best work when they're motivated by a sense of purpose rather than by the pursuit of money. Do you agree? Explain your position. What are the implications for managers?
12.8 How could managers use the job characteristics model to encourage and support workforce diversity efforts? Explain.

12.9 In difficult economic times, managers may not be able to use financial rewards or employment security to motivate or reward their staff. What could they use instead?
12.10 What are some of the pros of tailoring rewards to meet the preferences of individual staff members? What are some of the cons of doing that?

Management skills spotlight: Being a good motivator

Great managers are great motivators. They're able to find the magic 'potion' that stimulates employees to reach their full potential. The fact that there are hundreds of business books on motivation and dozens of experts who make a living by putting on motivation seminars only confirms the importance of this topic to managerial effectiveness.

Experiential exercise

Motivation is a driving force, and it can be just as powerful when it is driving us *away* from something as it can when it is driving us *towards* something. In this exercise, you're going to explore how both those scenarios motivate people.

1. Think about the last time you did something that you *really* wanted to make a success of. It could be a work-related activity, or a personal one (e.g. organising a wedding, hosting a birthday party, painting a room, spending time with someone you really wanted to impress). Now reflect on your experience:
2. Describe what happened by writing some notes about that experience, focusing on four things in particular:
    a. What was the successful outcome you were *trying* to achieve? (Be as specific as possible about what the dream outcome would have been.)
    b. What did you do to try to achieve it? What obstacles and unexpected challenges came up? How did you handle them?
    c. What were the positive outcomes you were hoping to achieve from this activity? These could be outcomes related to the experience (e.g. I wanted to feel really organised and on top of things) or to the outcome achieved (I wanted my friend to feel really special at their birthday party).

    d. What were the negative outcomes you were trying to avoid or minimise? What did you *not* want to happen?

3. Interpret your experience. Review the motivation theories detailed in this chapter, and choose the one that best relates to your experience. Now relate it to the motivations you described above.
4. Evaluate your experience. Overall, which was stronger in this experience: your motivational drive to achieve the positive things you wanted, or your motivational drive to avoid the negative things you wanted to avoid?
5. How could you apply your insights in the future? Next time you are trying to motivate yourself to do something very well, would it be more effective for you to focus on the positive things you want to achieve, or the negative things you want to avoid?

Case application: One for the money . . .

Does money buy happiness? Ask the 120 employees at Gravity Payments, a credit card processing company based in Seattle, in the US.[67] The company's founder, 33-year-old Dan Price, made the news in April 2015 when he decided to put everyone in the company (including himself!) on a new 'minimum wage' of US$70,000. At the time, the national minimum wage in the US was just over US$7 an hour, and the average salary at Gravity Payments at the time was US$48,000, so that was a pretty big deal! To pay for the salary increase, Price took a pay cut from his own annual US$1 million salary and used 75–80 per cent of the company's profits to help cover the US$1.8 million total cost of the plan.

Why did Price do it? He said that he had been thinking about employee pay for a while, especially after reading several news reports about the glaring pay disparities between corporate CEOs and employees, which he says struck him as 'ridiculous' and 'absurd'. Price had also read an article on happiness by two Princeton researchers (one a Nobel Prize-winning psychologist) who had surveyed 450,000 US residents on whether money could buy happiness – both as it affected

overall happiness and day-to-day life. The researchers concluded that people claimed to be happier with each doubling of income, but only to the point where their income reached about US$75,000 a year. Learning how friends and employees were dealing with having to make ends meet on low incomes also made him realise that ‘I needed to take a bold action instead of waiting around for someone else to do something. When employees are making a less-than-workable income, it’s distracting . . . Paying more results in less distraction, greater autonomy . . . all things leading to high levels of engagement and ultimately better business outcomes.’

> $\mathrm{Money} = \mathrm{happiness}$, **or does it**?

Price and his plan have also attracted an overwhelming amount of public attention and commentary, with commentators calling it everything from ‘inspired’ to ‘socialism’ and ‘doomed to fail’. But the business consequences have been mostly positive.

In the wake of Price’s announcement, customer enquiries jumped from 30 per month to 2,000 in two weeks. In an industry in which customer retention rates average about 68 per cent, Gravity has had a 91 per cent retention rate for the past three years. Business volume has trebled, and the company has had to hire more staff, some of whom took significant pay cuts to join Gravity because, as one new employee put it, ‘I spent years chasing the money. Now I’m looking for something fun and meaningful.’ The company did

lose two of its ‘rock-star’ employees who reportedly thought it was unfair that other employees got big raises without contributing as much to the company’s performance. Some clients also left because they anticipated that fee increases would be used to pay for the new salaries, or because they felt Price’s actions were a political statement or a PR stunt.

What will happen in the longer term remains unclear. Five years on, Price says more of his employees are buying homes and starting families because they have the financial security to do that. But will this approach be sustainable when economic times become harder? What will happen if it becomes less profitable? Only time will tell.

Discussion questions

12.11 Look back at the chapter-opening ‘Fact or Fiction’ and how it was ‘debunked’. Evaluate this wage decision in light of that.

12.12 Explain each of the employee productivity/motivation concerns. Which of these do you think is most critical? Why?

12.13 Expectancy theory says employees are motivated when they see a clear link between effort, performance and rewards. By that logic, do you think employees would find Price’s approach to be motivating or de-motivating?

12.14 What problem(s) might managers face under this new pay approach, and how could they use knowledge

about employee motivation to help them deal with those problem(s)?

Running case: Holiday home helpers: Recognising that rewards take many forms

During the last week of her first month at HHH, Mia held ‘getting to know you’ conversations with each of her staff. She asked them all the same questions:

- Before you joined HHH, what made you think this was a place you could be happy to work?
- What’s a ‘good day’ in this job? What’s a ‘bad day’ on the job?
- What do you like about working for HHH? If I could make it so, what are the things you’d like more of?
- What are the things you’d like less of?

On Friday, she sat down to review her notes from the previous day’s conversations.

Her first conversation was with Jack, one of the maintenance staff. Jack had joined HHH after running his own gardening and maintenance business for several years because he wanted the security of working for a larger company rather than being self-employed. For Jack, a ‘good’ day was a day

when the weather was warm and dry enough for him to get stuck into his job list and get all his work done by 3 pm so he could pick his daughter up from school. A ‘bad’ day was one where getting the wrong instructions or not having the right gear for the job meant tasks took longer than they should have. Jack enjoys the variety of his work at HHH because he is doing something different every day and he loves doing a job well – looking at a well-mown lawn or a well-painted wall. He’d like the maintenance work to be better organised, because he believes if he could schedule in advance what had to be done, he could be more efficient and productive.

Her second conversation was with Bianca, who first joined HHH as a cleaner but has been a property presentation manager for two years. Bianca’s previous job had been working for a company that specialised in cleaning houses that had just been built or renovated. She joined HHH because she thought (correctly, it turned out) that she would enjoy making the holiday houses lovely and welcoming for the guests. A ‘good’ day is one where she gets to create an extra-special welcome for the guests. Yesterday, she had a couple checking in for a honeymoon stay, so she found a photo of their wedding on Facebook and decorated the house using the same flowers as the bride’s wedding bouquet. A ‘bad’ day is one where she finds out people had special needs or preferences that she can’t help with but could have if she had only known earlier. She would love more of her property owners to want to make people’s stay extra special: she gets frustrated when they don’t want to.

Mia smiled when she realised that while Jack and Bianca shared some similarities, they also wanted very different things out of their work at HHH. If they worked together, they'd probably drive each other crazy!

Discussion questions

12.15 What needs seem to motivate Jack and Bianca in their jobs? How are they meeting those needs in their work?

12.16 What goals do you think Bianca and Jack would say they have in their jobs? How powerfully do you think those goals motivate them?

12.17 What job characteristics does Bianca's job have? What job characteristics does Jack's job have?

12.18 If Mia were to set up an employee recognition and reward program for her region of HHH, what rewards do you think would be most meaningful for Jack? For Bianca?

12.19 Should Mia introduce a pay-for-performance program at HHH? Why or why not?

Endnotes

1 R. Kahn, A *Repurposed Life* (Sydney: Murdoch Books, 2020); 'The OzHarvest Story', **https://www.ozharvest.org**, accessed 21–28 April 2021; M. Woods, 'Leading the Harvest', in S. Robbins, D. Decenzo, M. Coulter and M. Woods, *Management: The Essentials*, 2nd edn (Sydney: Pearson, 2014), pp. 313–14.

2 R. M. Steers, R. T. Mowday and D. L. Shapiro, 'The Future of Work Motivation Theory', *Academy of Management Review*, July 2004, pp. 379–87.

3 N. Ellemers, D. De Gilder and S. A. Haslam, 'Motivating Individuals and Groups at Work: A Social Identity Perspective on Leadership and Group Performance', *Academy of Management Review*, July 2004, pp. 459–78.

4 J. Krueger and E. Killham, 'At Work, Feeling Good Matters', *Gallup Management Journal*, 8 December 2005.

5 A. Maslow, *Motivation and Personality* (New York: McGraw-Hill, 1954); A. Maslow, D. C. Stephens and G. Heil, *Maslow on Management* (New York: John Wiley & Sons, 1998); M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92; and 'Dialogue', *Academy of Management Review*, October 2000, pp. 696–701.

6 N. K. Austin, 'The Power of the Pyramid: The Foundation of Human Psychology and, Thereby, of Motivation, Maslow's Hierarchy is One Powerful Pyramid', *Incentive*, July 2002, p. 10.

7 See, for example, D. T. Hall and K. E. Nongaim, 'An Examination of Maslow's Need Hierarchy in an Organizational Setting', *Organizational Behavior and Human Performance*, February 1968, pp. 12–35; E. E. Lawler III and J. L. Suttle, 'A Causal Correlational Test of the Need Hierarchy Concept', *Organizational Behavior and Human Performance*, April 1972, pp. 265–87; R. M. Creech, 'Employee Motivation', *Management Quarterly*, Summer 1995, pp. 33–9; J. Rowan, 'Maslow Amended', *Journal of Humanistic Psychology*, Winter 1998, pp. 81–92; J. Rowan, 'Ascent and Descent in Maslow's Theory', *Journal of Humanistic Psychology*, Summer 1999, pp. 125–33; and M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

8 D. C. McClelland, *The Achieving Society* (New York: Van Nostrand Reinhold, 1961); J. W. Atkinson and J. O. Raynor, *Motivation and Achievement* (Washington, DC: Winston, 1974); D. C. McClelland, *Power: The Inner Experience* (New York: Irvington, 1975); and M. J. Stahl, *Managerial and Technical Motivation: Assessing Needs for Achievement, Power and Affiliation* (New York: Praeger, 1986).

9 D. C. McClelland, *The Achieving Society* (New York: Van Nostrand Reinhold, 1961).

10 D. C. McClelland, *Power: The Inner Experience* (New York: Irvington, 1975); and D. C. McClelland and D. H. Burnham, 'Power Is the Great Motivator', *Harvard Business Review* (March–April 1976), pp. 100–10.

11 D. Miron and D. C. McClelland, 'The Impact of Achievement Motivation Training on Small Businesses', *California Management*

Review, Summer 1979, pp. 13–28.

12 'McClelland: An Advocate of Power', *International Management*, July 1975, pp. 27–9.

13 G. Heil, W. Bennis and D. C. Stephens, *Douglas McGregor, Revisited: Managing the Human Side of Enterprise* (New York: Wiley, 2000).

14 F. Herzberg, B. Mausner and B. Snyderman, *The Motivation to Work* (New York: John Wiley, 1959); F. Herzberg, *The Managerial Choice: To Be Effective or to Be Human*, rev. edn (Salt Lake City, UT: Olympus, 1982); R. M. Creech, 'Employee Motivation', *Management Quarterly*, Summer 1995, pp. 33–9; and M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

15 See, for example, A. H. Brayfield and H. F. Rothe, 'An Index of Job Satisfaction', *Journal of Applied Psychology*, October 1951, pp. 307–11; A. M. Anikeeff, 'The Effect of Job Satisfaction upon Attitudes of Business Administrators and Employees', *Journal of Social Psychology*, vol. 45, no. 2 (1957), pp. 277–81; and J. B. Pearson, G. H. Barker and R. D. Elliott, 'Sales Success and Job Satisfaction', *American Sociological Review*, August 1957, pp. 424–7.

16 See A. H. Brayfield and W. H. Crockett, 'Employee Attitudes and Employee Performance', *Psychological Bulletin*, September 1955, pp. 396–428.

17 Classic Concepts in Today's Organisations box based on C. M. Christensen, 'How Will You Measure Your Life?', *Harvard Business Review*, July–August 2010, pp. 46–51; D. A. Wren and A. G.

Bedeian, *The Evolution of Management Thought* (New York: John Wiley & Sons, Inc., 2009); F. Herzberg, *One More Time: How Do You Motivate Employees?* (Boston: Harvard Business School Press, 2008); and F. Herzberg, B. Mausner and B. Snyderman, *The Motivation to Work* (New York: John Wiley, 1959).

18 R. M. Steers, R. T. Mowday and D. L. Shapiro, 'The Future of Work Motivation Theory', *Academy of Management Review*, July 2004, pp. 379–87; E. A. Locke and G. P. Latham, 'What Should We Do about Motivation Theory? Six Recommendations for the Twenty-First Century', *Academy of Management Review*, July 2004, pp. 388–403; and M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

19 M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

20 J. C. Naylor and D. R. Ilgen, 'Goal Setting: A Theoretical Analysis of a Motivational Technique', in B. M. Staw and L. L. Cummings (eds), *Research in Organizational Behavior*, vol. 6 (Greenwich, CT: JAI Press, 1984), pp. 95–140; A. R. Pell, 'Energize Your People', *Managers Magazine*, December 1992, pp. 28–9; E. A. Locke, 'Facts and Fallacies about Goal Theory: Reply to Deci', *Psychological Science*, January 1993, pp. 63–4; M. E. Tubbs, 'Commitment as a Moderator of the Goal–Performance Relation: A Case for Clearer Construct Definition', *Journal of Applied Psychology*, February 1993, pp. 86–97; M. P. Collingwood, 'Why Don't You Use the Research?', *Management Decision*, May 1993, pp. 48–54; M. E. Tubbs, D. M. Boehne and J. S. Dahl, 'Expectancy,

Valence and Motivational Force Functions in Goal-Setting Research: An Empirical Test', *Journal of Applied Psychology*, June 1993, pp. 361–73; E. A. Locke, 'Motivation through Conscious Goal Setting', *Applied and Preventive Psychology*, vol. 5 (1996), pp. 117–24; M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92; E. A. Locke and G. P. Latham, 'Building a Practically Useful Theory of Goal Setting and Task Motivation: A 35-Year Odyssey', *American Psychologist*, September 2002, pp. 705–17; Y. Fried and L. H. Slowik, 'Enriching Goal-Setting Theory with Time: An Integrated Approach', *Academy of Management Review*, July 2004, pp. 404–22; G. P. Latham, 'The Motivational Benefits of Goal-Setting', *Academy of Management Executive*, November 2004, pp. 126–9; and G. Yeo, S. Loft, T. Xiao and C. Kiewitz, 'Goal Orientation and Performance: Differential Relationships across Levels of Analysis and as a Function of Task Demands', *Journal of Applied Psychology*, May 2009, pp. 710–26.

21 J. A. Wagner III, 'Participation's Effects on Performance and Satisfaction: A Reconsideration of Research and Evidence', *Academy of Management Review*, April 1994, pp. 312–30; J. George-Falvey, 'Effects of Task Complexity and Learning Stage on the Relationship between Participation in Goal Setting and Task Performance', Academy of Management Proceedings on Disk, 1996; T. D. Ludwig and E. S. Geller, 'Assigned versus Participative Goal Setting and Response Generalization: Managing Injury Control among Professional Pizza Deliverers', *Journal of Applied Psychology*, April 1997, pp. 253–61; and S. G. Harkins and M. D. Lowe, 'The Effects

of Self-Set Goals on Task Performance', *Journal of Applied Social Psychology*, January 2000, pp. 1–40.

22 J. M. Ivancevich and J. T. McMahon, 'The Effects of Goal Setting, External Feedback and Self-Generated Feedback on Outcome Variables: A Field Experiment', *Academy of Management Journal*, June 1982, pp. 359–72; and E. A. Locke, 'Motivation through Conscious Goal Setting', *Applied and Preventive Psychology*, vol. 5 (1996), pp. 117–24.

23 J. R. Hollenbeck, C. R. Williams and H. J. Klein, 'An Empirical Examination of the Antecedents of Commitment to Difficult Goals', *Journal of Applied Psychology*, February 1989, pp. 18–23; see, also, J. C. Wofford, V. L. Goodwin and S. Premack, 'Meta-Analysis of the Antecedents of Personal Goal Level and of the Antecedents and Consequences of Goal Commitment', *Journal of Management*, September 1992, pp. 595–615; M. E. Tubbs, 'Commitment as a Moderator of the Goal–Performance Relation: A Case for Clearer Construct Definition', *Journal of Applied Psychology*, February 1993, pp. 86–97; and J. W. Smither, M. London and R. R. Reilly, 'Does Performance Improve Following Multisource Feedback? A Theoretical Model, Meta-Analysis and Review of Empirical Findings', *Personnel Psychology*, Spring 2005, pp. 171–203.

24 M. E. Gist, 'Self-Efficacy: Implications for Organizational Behavior and Human Resource Management', *Academy of Management Review*, July 1987, pp. 472–85; and A. Bandura, *Self-Efficacy: The Exercise of Control* (New York: Freeman, 1997).

25 E. A. Locke, E. Frederick, C. Lee and P. Bobko, 'Effect of Self-Efficacy, Goals and Task Strategies on Task Performance', *Journal of Applied Psychology*, May 1984, pp. 241–51; M. E. Gist

and T. R. Mitchell, 'Self-Efficacy: A Theoretical Analysis of Its Determinants and Malleability', *Academy of Management Review*, April 1992, pp. 183–211; A. D. Stajkovic and F. Luthans, 'Self-Efficacy and Work-Related Performance: A Meta-Analysis', *Psychological Bulletin*, September 1998, pp. 240–61; A. Bandura, 'Cultivate Self-Efficacy for Personal and Organizational Effectiveness', in E. Locke (ed.), *Handbook of Principles of Organizational Behavior* (Malden, MA: Blackwell, 2004), pp. 120–36; and F. Q. Fu, K. A. Richards and E. Jones, 'The Motivation Hub: Effects of Goal Setting and Self-Efficacy on Effort and New Product Sales', *Journal of Personal Selling & Sales Management*, Summer 2009, pp. 277–92.

26 A. Bandura and D. Cervone, 'Differential Engagement in Self-Reactive Influences in Cognitively Based Motivation', *Organizational Behavior and Human Decision Processes*, August 1986, pp. 92–113; and R. Ilies and T. A. Judge, 'Goal Regulation across Time: The Effects of Feedback and Affect', *Journal of Applied Psychology*, May 2005, pp. 453–67.

27 See J. C. Anderson and C. A. O'Reilly, 'Effects of an Organizational Control System on Managerial Satisfaction and Performance', *Human Relations*, June 1981, pp. 491–501; and J. P. Meyer, B. Schacht-Cole and I. R. Gellatly, 'An Examination of the Cognitive Mechanisms by Which Assigned Goals Affect Task Performance and Reactions to Performance', *Journal of Applied Social Psychology*, vol. 18, no. 5 (1988), pp. 390–408.

28 Managing for Sustainability box based on J. Liebowitz, 'The Role of HR in Achieving a Sustainability Culture', *Journal of Sustainable Development*, December 2010, pp. 50–7.

29 See, for example, R. W. Griffin, 'Toward an Integrated Theory of Task Design', in L. L. Cummings and B. M. Staw (eds), *Research in Organizational Behavior*, vol. 9 (Greenwich, CT: JAI Press, 1987), pp. 79–120; and M. Campion, 'Interdisciplinary Approaches to Job Design: A Constructive Replication with Extensions', *Journal of Applied Psychology*, August 1988, pp. 467–81.

30 See J. R. Hackman and G. R. Oldham, 'Motivation through the Design of Work: Test of a Theory', *Organizational Behavior and Human Performance*, August 1976, pp. 250–79; Y. Fried and G. R. Ferris, 'The Validity of the Job Characteristics Model: A Review and Meta Analysis', *Personnel Psychology*, Summer 1987, pp. 287–322; S. J. Zaccaro and E. F. Stone, 'Incremental Validity of an Empirically Based Measure of Job Characteristics', *Journal of Applied Psychology*, May 1988, pp. 245–52; and R. W. Renn and R. J. Vandenberg, 'The Critical Psychological States: An Underrepresented Component in Job Characteristics Model Research', *Journal of Management*, February 1995, pp. 279–303.

31 G. Van Der Vegt, B. Emans and E. Van Der Vliert, 'Motivating Effects of Task and Outcome Interdependence in Work Teams', *Journal of Managerial Psychology*, July 2000, p. 829; and B. Bemmels, 'Local Union Leaders' Satisfaction with Grievance Procedures', *Journal of Labor Research*, Summer 2001, pp. 653–69.

32 J. S. Adams, 'Inequity in Social Exchanges', in L. Berkowitz (ed.), *Advances in Experimental Social Psychology*, vol. 2 (New York: Academic Press, 1965), pp. 267–300; and M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

33 See, for example, P. S. Goodman and A. Friedman, 'An Examination of Adams' Theory of Inequity', *Administrative Science Quarterly*, September 1971, pp. 271–88; M. R. Carrell, 'A Longitudinal Field Assessment of Employee Perceptions of Equitable Treatment', *Organizational Behavior and Human Performance*, February 1978, pp. 108–18; E. Walster, G. W. Walster and W. G. Scott, *Equity: Theory and Research* (Boston: Allyn & Bacon, 1978); R. G. Lord and J. A. Hohenfeld, 'Longitudinal Field Assessment of Equity Effects on the Performance of Major League Baseball Players', *Journal of Applied Psychology*, February 1979, pp. 19–26; J. E. Dittrich and M. R. Carrell, 'Organizational Equity Perceptions, Employee Job Satisfaction and Departmental Absence and Turnover Rates', *Organizational Behavior and Human Performance*, August 1979, pp. 29–40; and J. Greenberg, 'Cognitive Reevaluation of Outcomes in Response to Underpayment Inequity', *Academy of Management Journal*, March 1989, pp. 174–84.

34 P. S. Goodman, 'An Examination of Referents Used in the Evaluation of Pay', *Organizational Behavior and Human Performance*, October 1974, pp. 170–95; S. Ronen, 'Equity Perception in Multiple Comparisons: A Field Study', *Human Relations*, April 1986, pp. 333–46; R. W. Scholl, E. A. Cooper and J. F. McKenna, 'Referent Selection in Determining Equity Perception: Differential Effects on Behavioral and Attitudinal Outcomes', *Personnel Psychology*, Spring 1987, pp. 113–27; and C. T. Kulik and M. L. Ambrose, 'Personal and Situational Determinants of Referent Choice', *Academy of Management Review*, April 1992, pp. 212–37.

35 See, for example, R. C. Dailey and D. J. Kirk, 'Distributive and Procedural Justice as Antecedents of Job Dissatisfaction and Intent

to Turnover', *Human Relations*, March 1992, pp. 305–16; D. B. McFarlin and P. D. Sweeney, 'Distributive and Procedural Justice as Predictors of Satisfaction with Personal and Organizational Outcomes', *Academy of Management Journal*, August 1992, pp. 626–37; M. A. Konovsky, 'Understanding Procedural Justice and Its Impact on Business Organizations', *Journal of Management*, vol. 26, no. 3 (2000), pp. 489–511; J. A. Colquitt, 'Does the Justice of One Interact with the Justice of Many? Reactions to Procedural Justice in Teams', *Journal of Applied Psychology*, August 2004, pp. 633–46; J. Brockner, 'Why It's So Hard to Be Fair', *Harvard Business Review*, March 2006, pp. 122–9; and B. M. Wiesenfeld, W. B. Swann, Jr, J. Brockner and C. A. Bartel, 'Is More Fairness Always Preferred: Self-Esteem Moderates Reactions to Procedural Justice', *Academy of Management Journal*, October 2007, pp. 1235–53.

36 V. H. Vroom, *Work and Motivation* (New York: John Wiley, 1964).

37 See, for example, H. G. Heneman III and D. P. Schwab, 'Evaluation of Research on Expectancy Theory Prediction of Employee Performance', *Psychological Bulletin*, July 1972, pp. 1–9; and L. Reinharth and M. Wahba, 'Expectancy Theory as a Predictor of Work Motivation, Effort Expenditure and Job Performance', *Academy of Management Journal*, September 1975, pp. 502–37.

38 See, for example, V. H. Vroom, 'Organizational Choice: A Study of Pre- and Postdecision Processes', *Organizational Behavior and Human Performance*, April 1966, pp. 212–25; L. W. Porter and E. E. Lawler III, *Managerial Attitudes and Performance* (Homewood, IL: Richard D. Irwin, 1968); W. Van Eerde and H. Thierry, 'Vroom's Expectancy Models and Work-Related Criteria: A Meta-Analysis',

Journal of Applied Psychology, October 1996, pp. 575–86; and M. L. Ambrose and C. T. Kulik, 'Old Friends, New Faces: Motivation Research in the 1990s', *Journal of Management*, vol. 25, no. 3 (1999), pp. 231–92.

39 See, for example, M. Siegall, 'The Simplistic Five: An Integrative Framework for Teaching Motivation', *The Organizational Behavior Teaching Review*, vol. 12, no. 4 (1987–88), pp. 141–3.

40 Rethinking Management in a Global Crisis box based on 'People on JobKeeper Give back to the Community', *7news*, 27 June 2020; Fair Work Australia, 'JobKeeper Wage Subsidy Scheme', 1 May 2020, **https://coronavirus.fairwork.gov.au/coronavirus-and-australian-workplace-laws/temporary-changes-to-workplace-laws-during-coronavirus**, accessed 10 June 2020; C. Waters, '"It's Not Money for Jam": Staff Refusing to Come to Work but Demanding JobKeeper Payments', *Sydney Morning Herald*, 27 April 2020; and 'Pretzel with a Twist', *The West Australian*, 6 April 2020.

41 N. J. Adler with A. Gundersen, *International Dimensions of Organizational Behavior*, 5th edn (Cincinnati, OH: Cengage, 2008).

42 G. Hofstede, 'Motivation, Leadership and Organization: Do American Theories Apply Abroad?', *Organizational Dynamics*, Summer 1980, p. 55.

43 G. Hofstede, 'Motivation, Leadership and Organization: Do American Theories Apply Abroad?', *Organizational Dynamics*, Summer 1980, p. 55.

44 J. K. Giacobbe-Miller, D. J. Miller and V. I. Victorov, 'A Comparison of Russian and U.S. Pay Allocation Decisions, Distributive Justice Judgments and Productivity under Different

Payment Conditions', *Personnel Psychology*, Spring 1998, pp. 137–63.

45 S. L. Mueller and L. D. Clarke, 'Political–Economic Context and Sensitivity to Equity: Differences between the United States and the Transition Economies of Central and Eastern Europe', *Academy of Management Journal*, June 1998, pp. 319–29.

46 I. Harpaz, 'The Importance of Work Goals: An International Perspective', *Journal of International Business Studies*, First Quarter 1990, pp. 75–93.

47 G. E. Popp, H. J. Davis and T. T. Herbert, 'An International Study of Intrinsic Motivation Composition', *Management International Review*, January 1986, pp. 28–35.

48 R. W. Brislin, B. MacNab, R. Worthley, F. Kabigting, Jr and B. Zukis, 'Evolving Perceptions of Japanese Workplace Motivation: An Employee–Manager Comparison', *International Journal of Cross-Cultural Management*, April 2005, pp. 87–104.

49 This section based on D. Jones, 'Ford, Fannie Mae Tops in Diversity', *USA Today*, 7 May 2003; S. N. Mehta, 'What Minority Employees Really Want', *Fortune*, 10 July 2000, pp. 180–6; K. H. Hammonds, 'Difference Is Power', *Fast Company*, July 2000, pp. 258–66; 'Building a Competitive Workforce: Diversity, the Bottom Line', *Forbes*, 3 April 2000, pp. 181–94; and 'Diversity: Developing Tomorrow's Leadership Talent Today', *BusinessWeek*, 20 December 1999, pp. 85–100.

50 J. R. Billings and D. L. Sharpe, 'Factors Influencing Flextime Usage among Employed Married Women', *Consumer Interests Annual*, 1999, pp. 89–94; and I. Harpaz, 'The Importance of Work

Goals: An International Perspective', *Journal of International Business Studies*, First Quarter 1990, pp. 75–93.

51 N. Ramachandran, 'New Paths at Work', *US News & World Report*, 20 March 2006, p. 47; S. Armour, 'Generation Y: They've Arrived at Work with a New Attitude', *USA Today*, 6 November 2005, pp. B1+; and R. Kanfer and P. L. Ackerman, 'Aging, Adult Development and Work Motivation', *Academy of Management Review*, July 2004, pp. 440–58.

52 Managing for Diversity and Inclusion box based on A. Colangelo, 'AFL's Gender Pay Gap "Unfair" and "Unreasonable"', *The New Daily*, 1 September 2016; P. Ryan and D. Navaratnam, 'Women's Pay Deal Signed off, New Minimum Wage Revealed', **www.afl.com.au/news**, accessed 2 October 2017; 'Women's AFL Play Deal Gets Tick of Approval from Players' Association', *ABC News*, 10 November 2016; A. Smith, 'Equal Pay and Health Insurance? I'd Like to See That', *Crikey*, 25 January 2017; and A. Schetzer, 'AFLW Player Wage Rise Illustrates Tough Battle Women Face', *The Guardian*, 16 November 2018.

53 See, for example, M. Alpert, 'The Care and Feeding of Engineers', *Fortune*, 21 September 1992, pp. 86–95; G. Poole, 'How to Manage Your Nerds', *Forbes ASAP*, December 1994, pp. 132–6; T. J. Allen and R. Katz, 'Managing Technical Professionals and Organizations: Improving and Sustaining the Performance of Organizations, Project Teams and Individual Contributors', *Sloan Management Review*, Summer 2002, pp. S4–5; and S. R. Barley and G. Kunda, 'Contracting: A New Form of Professional Practice', *Academy of Management Perspectives*, February 2006, pp. 45–66.

54 P. McCord, 'How Netflix Reinvented HR', *Harvard Business Review*, January 2014; and R. Hastings and P. McCord, 'Netflix Culture: Freedom and Responsibility', **www.slideshare.net**, accessed 13 December 2014.

55 H. G. Jackson, 'Flexible Workplaces: The Next Imperative', *HR Magazine*, March 2011, p. 8; E. Frauenheim, 'Companies Focus Their Attention on Flexibility', *Workforce Management Online*, February 2011; P. Davidson, 'Companies Do More with Fewer Workers', *USA Today*, 23 February 2011, pp. 1B+; M. Rich, 'Weighing Costs, Companies Favor Temporary Help', *New York Times Online*, 19 December 2010; P. Davidson, 'Temporary Workers Reshape Companies, Jobs', *USA Today*, 13 October 2010, pp. 1B+; J. P. Broschak and A. Davis-Blake, 'Mixing Standard Work and Nonstandard Deals: The Consequences of Heterogeneity in Employment Arrangements', *Academy of Management Journal*, April 2006, pp. 371–93; M. L. Kraimer, S. J. Wayne, R. C. Liden and R. T. Sparrowe, 'The Role of Job Security in Understanding the Relationship between Employees' Perceptions of Temporary Workers and Employees' Performance', *Journal of Applied Psychology*, March 2005, pp. 389–98; and C. E. Connelly and D. G. Gallagher, 'Emerging Trends in Contingent Work Research', *Journal of Management*, November 2004, pp. 959–83.

56 J. Singer, 'Healing Your Workplace', *Supervision*, March 2011, pp. 11–13; P. Hart, 'Benefits of Employee Recognition in the Workplace: Reduced Risk and Raised Revenues', *EHS Today*, February 2011, pp. 49–52; and F. Luthans and A. D. Stajkovic, 'Provide Recognition for Performance Improvement', in E. A. Locke

(ed.), *Principles of Organizational Behavior* (Oxford, UK: Blackwell, 2000), pp. 166–80.

57 'Australia's Best Places to Work 2013', *BRW*, 27 June – 3 July 2013, pp. 22–31.

58 E. White, 'Praise from Peers Goes a Long Way', *Wall Street Journal*, 19 December 2005, p. B3.

59 Great Place to Work Australia, *2016 Best Places to Work*, **www.greatplacetowork.com.au**, accessed 2 February 2017.

60 V. M. Barret, 'Fight the Jerks', *Forbes*, 2 July 2007, pp. 52–4.

61 E. Krell, 'All for Incentives, Incentives for All', *HR Magazine*, January 2011, pp. 35–8; and E. White, 'The Best vs. the Rest', *Wall Street Journal*, 30 January 2006, pp. B1+.

62 R. K. Abbott, 'Performance-Based Flex: A Tool for Managing Total Compensation Costs', *Compensation and Benefits Review*, March–April 1993, pp. 18–21; J. R. Schuster and P. K. Zingheim, 'The New Variable Pay: Key Design Issues', *Compensation and Benefits Review*, March–April 1993, pp. 27–34; C. R. Williams and L. P. Livingstone, 'Another Look at the Relationship between Performance and Voluntary Turnover', *Academy of Management Journal*, April 1994, pp. 269–98; A. M. Dickinson and K. L. Gillette, 'A Comparison of the Effects of Two Individual Monetary Incentive Systems on Productivity: Piece Rate Pay versus Base Pay Plus Incentives', *Journal of Organizational Behavior Management*, Spring 1994, pp. 3–82; and C. B. Cadsby, F. Song and F. Tapon, 'Sorting and Incentive Effects of Pay for Performance: An Experimental Investigation', *Academy of Management Journal*, April 2007, pp. 387–405.

63 H. Rheem, 'Performance Management Programs', *Harvard Business Review*, September–October 1996, pp. 8–9; G. Sprinkle, 'The Effect of Incentive Contracts on Learning and Performance', *Accounting Review*, July 2000, pp. 299–326; and 'Do Incentive Awards Work?', *HRFocus*, October 2000, pp. 1–3.

64 R. D. Banker, S. Y. Lee, G. Potter and D. Srinivasan, 'Contextual Analysis of Performance Impacts on Outcome-Based Incentive Compensation', *Academy of Management Journal*, August 1996, pp. 920–48.

65 S. A. Jeffrey and G. K. Adomza, 'Incentive Salience and Improved Performance', *Human Performance*, vol. 24, no. 1 (2011), pp. 47–59; T. Reason, 'Why Bonus Plans Fail', *CFO*, January 2003, p. 53; and 'Has Pay for Performance Had Its Day?', *McKinsey Quarterly*, no. 4, 2002.

66 L. Dishman, 'Can a $70,000 Minimum Wage Work?', *Fast Company*, 20 April 2015; P. Cohen, 'One Company's New Minimum Wage: $70,000 a Year', *New York Times Online*, 13 April 2015; M. Levy, 'Buying Happiness: What Motivated Gravity Payments CEO Dan Price to Slash His Pay and Lift Staff Salaries', *Sydney Morning Herald*, 16 April 2015; C. Sailor, 'No Regret for Dan Price: The CEO Who Put $70K Minimum Wage in Place Is Here to Stay', *The News Tribune*, 11 February 2017; S. Becker, 'The $70 000 Minimum Wage Experiment Reveals a Dark Truth', **www.cheatsheet.com**, 26 January 2017, accessed 24 September 2017; P. Keegan, 'Here's What Really Happened at That Company That Set a $70 000 Minimum Wage', *Inc.*, November 2015; and 'How a CEO Transformed His Company by Setting a £54k Minimum Wage', *The Guardian*, 4 March 2020.

Chapter 13 Leadership and trust

Fact or fiction?

Leadership can’t be taught.

Fiction

Many people incorrectly assume that leaders are born. For example, they point to kids who, as early as four or five years old, are leading other kids around on the playground and displaying leadership qualities. The evidence suggests that while there are certainly personality traits associated with leadership and that these traits are due more to nature than to nurture, ***leadership CAN be taught***. In this chapter, we’ll describe behaviours generally ascribed to leaders and demonstrate how training can teach people to display these behaviours.

It’s important for managers in all organisations to be effective leaders. But what does it take? What

makes leaders different from non-leaders? What makes leaders effective? What's the most appropriate style of leadership? Is good leadership just about leaders being heard and trusted? Or is it also about helping employees feel like *they* are heard and trusted? These are just some of the topics we're going to address in this chapter. As we'll explain, being an effective leader combines a lot of different abilities. As the following case study about David Morrison illustrates, one of them is being able to clearly communicate what you want your followers to help you achieve and how you want them to do that!

Learning outcomes

13.1 Define leader and leadership.
13.2 Compare and contrast early leadership theories.
13.3 Describe the four main contingency leadership theories.
13.4 Describe modern views of leadership and the issues facing today's leaders.
13.5 Discuss trust as the essence of leadership.

Top-down leadership

DEPARTMENT
OF
DEFENCE

Chief of Army, Lieutenant General David Morrison, AO, leaves after a press conference in Canberra, 13 June 2013. The Chief of Army says three personnel have been suspended after circulating offensive emails.

Lukas Coch/AAP images

When Lieutenant General David Morrison became chief of the Australian Army in June 2011, he found himself leading an organisation where he had spent his whole working life. But within four years, he would lead a radical re-visioning of that organisation.[1]

Shortly after Morrison became chief, the then sex discrimination commissioner, Elizabeth Broderick, challenged him to consider why females comprised over 50 per cent of the population but only 10 per cent of the Army. As he later recalled, 'To my shame, I said "Well, it's just always been like that."' Broderick subsequently arranged for Morrison to meet several female soldiers who had experienced abuse, discrimination, harassment and bullying while serving in the Army. Those meetings inspired Morrison to change the Army's culture of disrespect and discrimination. The following year, 17 Army members were alleged to have sent videos and nude photographs of unsuspecting women to 172 soldiers using Australian Defence Force email systems. Morrison's response was dramatic and to the point. As he later explained, 'I decided that drastic action was necessary [because] we have a systemic problem with our culture. To pretend otherwise . . . is dishonest and self-delusional.' He posted a three-minute

video message to the entire Australian Army on YouTube stating unequivocally that such behaviour wouldn't be tolerated.

Those who think that it is okay to behave in a way that demeans or exploits their colleagues, have no place in this army . . . On all operations, female soldiers and officers have proven themselves worthy of the BEST traditions of the Australian Army. They are vital to us, maintaining our capability now, and into the future. If that doesn't suit you, then get out!

I will be ruthless in ridding the army of people who cannot live up to its values. And I need every one of you to support me in achieving this. The standard you walk past is the standard you accept . . . It is up to us to make a difference. If you're not up to it, find something else to do with your life. There is no place for you amongst this band of brothers and sisters.

The video went viral and within a few weeks had been viewed by over 1 million people. Morrison announced that he would use his remaining time as chief to establish *respect* as the fourth core value of the Australian Army and as 'the glue that binds the other three [values of *courage, integrity* and *teamwork*] together'. Over the next two years, Morrison re-oriented the Army's culture around a focus on talent, inclusion and support for diversity. By the time he retired in May 2015, females represented 12 per cent of the Army workforce, 25 per cent of cadets at the Australian Defence Force Academy and 20 per cent of cadets at the Royal Military College at Duntroon.

> ‘If that doesn’t suit you, **then get out**!’

Who are leaders, and what is leadership?

Learning outcome 13.1 Define leader and leadership.

Let's begin by clarifying who leaders are and what leadership is. Our definition of a **leader** is someone who can influence others and who has managerial authority. **Leadership** is what leaders do. It's a process of leading a group and influencing that group to achieve its goals.

leader

Someone who can influence others and who has managerial authority

leadership

The process of leading a group and influencing that group to achieve its goals

Are all managers leaders? Because leading is one of the four management functions, ideally all managers *should* be leaders. Thus, we're going to study leaders and leadership from a managerial perspective.[2] However, we're also aware that groups often have informal leaders who emerge. Although these informal leaders may be able to influence others, they haven't been the focus of most leadership research and aren't the types of leaders we're studying in this chapter.

Swedish environmentalist Greta Thunberg speaks during a ‘Youth Strike 4 Climate’ protest march on 6 March 2020 in Brussels. Despite having no formal leadership position or authority, her passion and commitment have made her an informal leader of climate change debates and discussions, with millions of followers around the world.

*Mike Dotta/**Shutterstock.com***

Leaders and leadership, like motivation, are organisational behaviour topics that have been well researched. Most of that research has been aimed at answering the question: ‘What is an effective leader?’ We’ll begin our study of leadership by looking at some early leadership theories that attempted to answer that question.

What do early leadership theories tell us about leadership?

> Learning outcome 13.2 Compare and contrast early leadership theories.

People have been interested in leadership since they started coming together in groups to accomplish goals. However, it wasn't until the early part of the 20th century that researchers actually began to study the topic. These early leadership theories focused on the *leader* (trait theories) and how the *leader interacted* with their group members (behavioural theories).

What traits do leaders have?

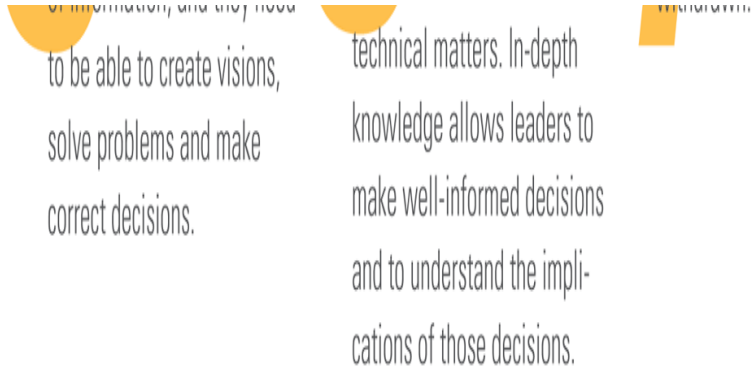
Ask the average person on the street what comes to mind when they think of leadership. You're likely to get a list of qualities such as intelligence, charisma, decisiveness, enthusiasm, strength, bravery, integrity and self-confidence. These responses represent, in essence, **trait theories of leadership**. The search for traits or characteristics that differentiate leaders from non-leaders dominated early leadership research efforts. Researchers tried to determine whether there were consistent and unique traits that would apply universally to all effective leaders, no matter whether they were in charge of Toyota Motor Corporation, the Moscow Ballet or the country of Brazil.

> ***trait theories of leadership***
>
> Theories that isolate characteristics (traits) that differentiate leaders from non-leaders

But researchers were unable to identify a set of traits that would *always* differentiate a leader (the person) from a non-leader. Possessing the appropriate traits only made it *more likely* that an individual would be an effective leader. However, later attempts to

identify traits consistently associated with leadership (the process, not the person) were more successful. The seven traits shown to be associated with effective leadership are described briefly in **Figure 13.1** [3].

Figure 13.1 Traits associated with leadership



Sources: Based on S. A. Kirkpatrick and E. A. Locke, 'Leadership: Do Traits Really Matter?', Academy of Management Executive, May 1991, pp. 48–60; and T. A. Judge, J. E. Bono, R. Ilies and M. W. Gerhardt, 'Personality and Leadership: A Qualitative and Quantitative Review', Journal of Applied Psychology, August 2002, pp. 765–80.

What behaviours do leaders exhibit?

Researchers eventually recognised that explanations of leadership based solely on traits ignored the interactions of leaders and their group members as well as situational factors. Wondering instead what effective leaders *did*, leadership researchers from the late 1940s to the mid-1960s concentrated on the behaviours that leaders demonstrated. It was hoped that the **behavioural theories of leadership** approach would provide more definitive answers about the nature of leadership. And, if behavioural studies could identify critical determinants of leadership, this would mean that people could be trained to be leaders. A number of studies looked at behavioural styles. We'll briefly review three of the most popular: Kurt Lewin's studies at the University of Iowa, the Ohio State studies, and the University of Michigan studies.

behavioural theories of leadership
Theories that isolate behaviours that differentiate effective leaders from ineffective leaders

What did the University of Iowa studies tell us about leadership behaviour?

One of the first studies of leadership behaviour was done by Kurt Lewin and his associates at the University of Iowa.[4] In their studies, the researchers explored three styles of leadership behaviours: autocratic, democratic and laissez-faire. An **autocratic style** is that of a leader who typically tends to centralise authority, dictate work methods, make unilateral decisions and limit employee participation. A leader with a **democratic style** tends to involve employees in decision making, delegates authority, encourages participation in deciding work methods and goals, and uses feedback as an opportunity to coach employees. The democratic style can be further classified in two ways: consultative and participative. A democratic–consultative leader seeks input and hears the concerns and issues of employees but makes the final decision themself. In this capacity, the democratic–consultative leader is using the input as an information-seeking exercise. A democratic–participative leader often allows employees to have a say in what's decided. Here, decisions are made by the group, with the leader providing one input to that group. Finally, the **laissez-faire style** leader generally gives their employees complete freedom to make decisions and to complete their work in whatever way they see fit. A laissez-faire leader might simply provide necessary materials and answer questions.

autocratic style

A leader who centralises authority, dictates work methods, makes unilateral decisions and limits employee participation

democratic style

A leader who involves employees in decision making, delegates authority, encourages participation in deciding work methods and uses feedback to coach employees

laissez-faire style

A leader who generally gives employees complete freedom to make decisions and to complete their work however they see fit

Lewin and his associates wondered which one of the three leadership styles was most effective. On the basis of their studies of leaders from boys' clubs, they concluded that the laissez-faire style was

ineffective on every performance criterion when compared with both democratic and autocratic styles. Quantity of work done was equal in groups with democratic and autocratic leaders, but work quality and group satisfaction were higher in democratic groups. The results suggest that a democratic leadership style could contribute to both good quantity and high quality of work.

Later studies of autocratic and democratic styles of leadership showed mixed results. For example, democratic leadership styles sometimes produced higher performance levels than autocratic styles, but at other times they produced group performance that was lower than or equal to that of autocratic styles. Nonetheless, more consistent results were generated when a measure of employee satisfaction was used. Group members' satisfaction levels were generally higher under a democratic leader than under an autocratic one.[5]

Two researchers, Robert Tannenbaum and Warren Schmidt, attempted to determine whether this meant that leaders should always exhibit a democratic style of leadership.[6] Tannenbaum and Schmidt developed a continuum of leader behaviours ranging from boss-centred (autocratic) on the left side of the model to employee-centred (laissez-faire) on the right side of the model. A leader with an autocratic 'boss-centred' leadership style uses leadership behaviours that emphasise their authority and provide little discretion to employees. For example, this sort of leader would make a decision and announce the outcome to their employees, rather than involve their employees in the decision. A leader at the other end of the

continuum uses leadership behaviours that focus on empowering employees and giving them discretion to act within defined limits. Leaders in the middle of the continuum use more participative leadership styles that are more consultative and democratic. For example, a consultative leader would make a decision by presenting ideas to their followers and then inviting questions from them. A democratic leader would present a problem to their followers, get their suggestions on how it could be solved, and then make a decision based on their input. In deciding which leader behaviour from the continuum to use, Tannenbaum and Schmidt proposed that managers look at forces within themselves (such as comfort level with the chosen leadership style), forces within the employees (such as readiness to assume responsibility) and forces within the situation (such as time pressures). They suggested that managers should move towards more employee-centred styles in the long run because such behaviour would increase employees' motivation, decision quality, teamwork, morale and development.

This dual nature of leader behaviours – that is, focusing both on the work to be done and on the employees – is also a key characteristic of the Ohio State and University of Michigan studies.

What did the Ohio State studies show?

The most comprehensive and replicated of the behavioural theories resulted from research that began at Ohio State University in the late 1940s.[7] These studies sought to identify independent dimensions of leader behaviour. Beginning with more than 1,000 dimensions, the

researchers eventually narrowed the list down to two categories that accounted for most of the leadership behaviour described by employees. They called these two dimensions *initiating structure* and *consideration*.

Initiating structure refers to the extent to which a leader is likely to define and structure their role and the roles of employees in the search for goal attainment. It includes behaviour that attempts to organise work, work relationships and goals. For example, the leader who is characterised as high in initiating structure assigns group members to particular tasks, expects workers to maintain definite standards of performance and emphasises meeting deadlines.

initiating structure

The extent to which a leader defines and structures their role and the roles of employees to attain goals

Consideration is defined as the extent to which a leader has job relationships characterised by mutual trust and respect for employees' ideas and feelings. A leader who is high in consideration helps employees with personal problems, is friendly and approachable, and treats all employees as equals. They show

concern for their followers' comfort, wellbeing, status and satisfaction.

consideration

The extent to which a leader has job relationships characterised by mutual trust, respect for employees' ideas and regard for their feelings

Extensive research based on these definitions found that a leader who is high in initiating structure and consideration (a high–high leader) achieved high employee performance and satisfaction more frequently than one who rated low on either consideration, initiating structure or both. However, the high–high style didn't always yield positive results. For example, leader behaviour characterised as high on initiating structure led to greater rates of grievances, absenteeism and turnover, and lower levels of job satisfaction for workers performing routine tasks. Other studies found that high consideration was negatively related to performance ratings of the leader by their manager. In conclusion, the Ohio State studies suggested that the high–high style generally produced positive outcomes, but enough exceptions were found to indicate that situational factors needed to be integrated into the theory.

How did the University of Michigan studies differ?

Leadership studies undertaken at the University of Michigan's Survey Research Center, at about the same time as those being done at Ohio State, had similar research objectives: to locate the behavioural characteristics of leaders that were related to performance effectiveness. The Michigan group also came up with two dimensions of leadership behaviour, which they labelled employee oriented and production oriented.[8] Leaders who were **employee oriented** emphasised interpersonal relations; they took a personal interest in the needs of their employees and accepted individual differences among members. Leaders who were **production oriented**, in contrast, tended to emphasise the technical or task aspects of the job, were concerned mainly with accomplishing their group's tasks, and regarded group members as a means to that end.

employee oriented

A leader who emphasises the people aspects

production oriented

A leader who emphasises the technical or task aspects

Classic concepts in today's organisations: People–task: Both are important to leaders

Both the Ohio State and Michigan studies have added a lot to our understanding of effective leadership.[9] Prior to the completion of these studies, it was widely thought by researchers and practising managers that one style of leadership was good and another bad. However, as the research showed, both leader behaviour dimensions – job-centred and employee-centred in the Michigan studies, and initiating structure and consideration in the Ohio State studies – are necessary for effective leadership. That dual focus of 'what' a leader does still holds today. Leaders are expected to focus both on the task and on the people they are leading. Even the later contingency leadership theories used the people–task distinction to define a leader's style. Finally, these early behavioural studies were important for the rigorous methodology they used and for increasing awareness of how important leader behaviour is. Although the behavioural theories may not have been the final chapter in the book on leadership, they provided us with important insights that became the foundation of contingency leadership theories.

Discuss this

- How did the behavioural theories serve as a springboard for the leadership research that followed?
- When you think about how leaders have to operate in today's organisations, is it too simplistic to say that their 'job' is to focus on the task *or* on the people? Explain.

The conclusions of the Michigan researchers strongly favoured leaders who were employee oriented. Employee-oriented leaders were associated with higher group productivity and higher job satisfaction. Production-oriented leaders were associated with lower group productivity and lower worker satisfaction.

Leadership researchers were discovering that predicting leadership success involved something more complex than isolating a few leader traits or preferable behaviours. They began looking at situational influences. Specifically, which leadership styles might be suitable in different situations, and what were these different situations?

What do the contingency theories of leadership tell us?

Learning outcome 13.3 Describe the four main contingency leadership theories.

'The corporate world is filled with stories of leaders who failed to achieve greatness because they failed to understand the context they were working in.'[10] In this section, we examine four contingency theories – Fiedler, Hersey-Blanchard, leader-participation and path–goal. Each looks at defining leadership style and the situation, and attempts to answer the *if-then* contingencies (i.e. *if* this is the context or situation, *then* this is the best leadership style to use).

What was the first comprehensive contingency model?

The first comprehensive contingency model for leadership was developed by Fred Fiedler.[11] The **Fiedler contingency model** proposed that effective group performance depended on properly matching the leader's style and the amount of control and influence in the situation. The model was based on the premise that a certain leadership style would be most effective in different types of situations. The keys were:

1. define those leadership styles and the different types of situations, and then
2. identify the appropriate combinations of style and situation.

Fiedler contingency model

Leadership theory proposing that effective group performance depends on the proper match between a leader's style and the degree to which the situation allowed the leader to control and influence

Fiedler proposed that a key factor in leadership success was an individual's basic leadership style, which is either task oriented or relationship oriented. To measure a leader's style, Fiedler developed the **least-preferred co-worker (LPC) questionnaire**, which contained 18 pairs of contrasting adjectives – for example, pleasant–unpleasant, cold–warm, boring–interesting or friendly–unfriendly. Respondents were asked to think of all the co-workers they had ever had and to describe that one person they *least enjoyed* working with by rating them on a scale of 1 to 8 for each of the sets of adjectives. (The 8 always described the positive adjective out of the pair, and the 1 the negative adjective.)

> ***least-preferred co-worker (LPC) questionnaire***
>
> A questionnaire that measures whether a leader is task or relationship oriented

If the leader described the least preferred co-worker in relatively positive terms (in other words, a 'high' LPC score – a score of 64 or above), then the respondent was primarily interested in good personal relations with co-workers and the style would be described as *relationship oriented*. In contrast, if you saw the least preferred co-worker in relatively unfavourable terms (a low LPC score – a score of 57 or below), you were primarily interested in productivity

and getting the job done; thus, your style would be labelled as *task oriented*. Fiedler did acknowledge that a small number of people might fall in between these two extremes and not have a cut-and-dried leadership style. One other important point is that Fiedler assumed that a person's leadership style was fixed regardless of the situation. In other words, if you were a relationship-oriented leader, you'd always be one, and so would task-oriented leaders.

After an individual's leadership style had been assessed through the LPC, it was time to evaluate the situation in order to be able to match the leader with the situation. Fiedler's research uncovered three contingency dimensions that defined the key situational factors in leader effectiveness. These were:

- **Leader–member relations:** the degree of confidence, trust and respect employees had for their leader; rated as either good or poor.
- **Task structure:** the degree to which job assignments were formalised and structured; rated as either high or low.
- **Position power:** the degree of influence a leader had over activities such as hiring, firing, discipline, promotions and salary increases; rated as either strong or weak.

Each leadership situation was evaluated in terms of these three contingency variables, which when combined produced eight possible situations that were either favourable or unfavourable for the leader to exert power and influence over the group.

Once Fiedler had described the leader variables and the situational variables, he had everything he needed to define the specific contingencies for leadership effectiveness. To do so, he studied 1,200 groups where he compared relationship-oriented versus task-oriented leadership styles in each of the eight situational categories. He concluded that task-oriented leaders performed better in both very favourable and very unfavourable situations. On the other hand, relationship-oriented leaders performed better in moderately favourable situations.

Because Fiedler treated an individual's leadership style as fixed, there were only two ways to improve leader effectiveness: bring in a new leader whose style better fit the situation; or change the situation to fit the leader. This could be done by restructuring tasks; by increasing or decreasing the power that the leader had over factors such as salary increases, promotions and disciplinary actions; or by improving the leader–member relations.

Research testing the overall validity of Fiedler's model has shown considerable evidence to support it.[12] However, his theory wasn't without criticisms. The main one is that it's probably unrealistic to assume that a person can't change their leadership style to fit the situation. Effective leaders can, and do, change their styles. Another is that the LPC wasn't very practical. Finally, the situation variables were difficult to assess.[13]

How do followers' willingness and ability influence leaders?

Paul Hersey and Ken Blanchard developed a leadership theory that has had a strong following among management development specialists.[14] This model, called **situational leadership theory (SLT)**, is a contingency theory that focuses on leader effectiveness and followers' readiness.

situational leadership theory (SLT)
A leadership contingency theory that focuses on followers' readiness

French entrepreneur Bertin Nahum is the founder and CEO of Medtech, a firm that develops, designs and markets computer-assisted neurosurgical robotics. With high follower readiness of being able and willing, Nahum's managers and staff have the skills and experience to innovate and provide superior technical support.

Alain Robert/APERCU/SIPA/Newscom

The emphasis on the followers in leadership effectiveness reflects the reality that it is the followers who accept or reject the leader. Regardless of what the leader does, the group's effectiveness depends on the actions of the followers. This is an important dimension that has been overlooked or underemphasised in most leadership theories. **Readiness**, as defined by Hersey and Blanchard, refers to the extent to which people have the ability and willingness to accomplish a specific task.

> ***readiness***
>
> The extent to which people have the ability and willingness to accomplish a specific task

> Leader

SLT uses the same two leadership dimensions that Fiedler identified: task and relationship behaviours. However, Hersey and Blanchard went a step further by considering each as either high or low and then combining them into four specific leadership styles described as follows:

- **Telling (high task–low relationship):** The leader defines roles and tells people what, how, when and where to do various tasks.
- **Selling (high task–high relationship):** The leader provides both directive and supportive behaviour.

- **Participating (low task–high relationship):** The leader and followers share in decision making; the main role of the leader is facilitating and communicating.
- **Delegating (low task–low relationship):** The leader provides little direction or support.

Followers

Hersey and Blanchard proposed that followers have four stages of readiness:

- **R1:** People are both *unable and unwilling* to take responsibility for doing something. Followers aren't competent or confident.
- **R2:** People are *unable but willing* to do the necessary job tasks. Followers are motivated but lack the appropriate skills.
- **R3:** People are *able but unwilling* to do what the leader wants. Followers are competent, but don't want to do something.
- **R4:** People are both *able and willing* to do what is asked of them.

Now – let's put the **two together**!

SLT essentially views the leader–follower relationship as like that of a parent and a child. Just as a parent needs to relinquish control when a child becomes more mature and responsible, so, too, should leaders. As followers reach higher levels of readiness, the leader responds not only by decreasing control over their activities but also by decreasing relationship behaviours. The SLT says:

- If followers are at R1 (*unable* and *unwilling* to do a task), the leader needs to use the telling style and give clear and specific

directions.

- If followers are at R2 (*unable* and *willing*), the leader needs to use the selling style and display high task orientation to compensate for the followers' lack of ability and high relationship orientation to get followers to 'buy into' the leader's desires.
- If followers are at R3 (*able* and *unwilling*), the leader needs to use the participating style to gain their support.
- If followers are at R4 (both *able* and *willing*), the leader doesn't need to do much and should use the delegating style.

SLT has intuitive appeal. It acknowledges the importance of followers and builds on the logic that leaders can compensate for ability and motivational limitations in their followers. However, research efforts to test and support the theory generally have been disappointing.[15] So, despite its appeal and wide popularity, we have to be cautious about any enthusiastic endorsement of SLT.

How participative should a leader be?

Back in 1973, Victor Vroom and Phillip Yetton developed a **leader-participation model** that related leadership behaviour and participation to decision making.[16] Recognising that task structures have varying demands for routine and non-routine activities, these researchers argued that leader behaviour must adjust to reflect the task structure. Vroom and Yetton's model provided a sequential set of rules to be followed in determining the form and amount of participation in decision making in different types of situations. The model was a decision tree incorporating seven contingencies (whose relevance could be identified by making yes or no choices) and five alternative leadership styles.

leader-participation model

A leadership contingency theory that's based on a sequential set of rules for determining how much participation a leader uses in decision making according to different types of situations

More recent work by Vroom and Arthur Jago has revised that model.[17] The new model retains the same five alternative leadership styles but expands the contingency variables to 12 – from the leader's making the decision completely by themself to sharing the problem with the group and developing a consensus decision. These variables are listed in **Table 13.1**.

Table 13.1 Contingency variables in the revised leader-participation model

Source: S. P. Robbins and T. A. Judge, Organizational Behavior, 13th edn, © 2009, p. 400. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

The leader-participation model assumes that the leader can adapt their style to different situations.[18] Research on the original leader-participation model was encouraging.[19] But unfortunately, the model is far too complex for the typical manager to use regularly. Although we obviously can't do justice to this model's sophistication in this discussion, it has provided us with some solid, empirically supported insights into key contingency variables related to leadership effectiveness. Moreover, the leader-participation model confirms that leadership research should be directed at the situation rather than at the person.

> Only 53 per cent of leaders are willing to step outside their leadership comfort zone and **try new techniques**.[20]

How do leaders help followers?

Another approach to understanding leadership is **path–goal theory**, which states that the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organisation. Developed by Robert House, path–goal theory takes key elements from the expectancy theory of motivation (see the chapter on motivating and rewarding employees).[21] The term *path–goal* is derived from the belief that effective leaders clarify the path to help their followers get from where they are to the achievement of their work goals and make the journey along the path easier by reducing roadblocks and pitfalls.

> ***path–goal theory***
>
> A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the organisation's or group's goals

House identified four leadership behaviours:

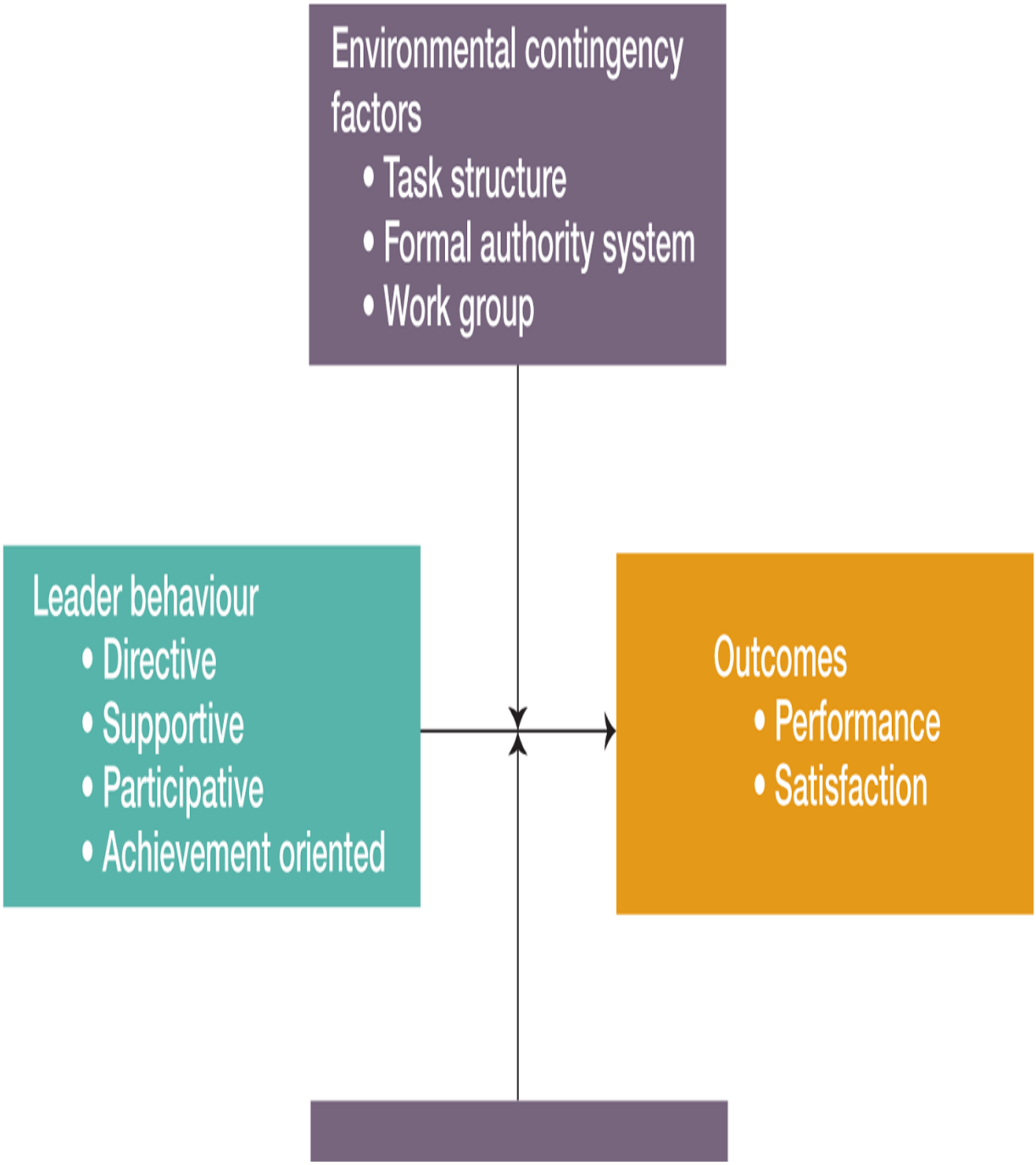
- **Directive leader:** Lets subordinates know what's expected of them, schedules work to be done, and gives specific guidance on how to accomplish tasks.
- **Supportive leader:** Shows concern for the needs of followers and is friendly.
- **Participative leader:** Consults with group members and uses their suggestions before making a decision.
- **Achievement-oriented leader:** Sets challenging goals and expects followers to perform at their highest level.

House assumed that leaders are flexible and can display any or all of these leadership styles, depending on the situation. As **Figure 13.2** illustrates, path–goal theory proposes two situational or contingency variables that moderate the leadership behaviour–outcome relationship: those in the *environment* that are outside the control of the follower (factors including task structure, formal authority system and the work group) and those that are part of the personal characteristics of the *follower* (including locus of control, experience and perceived ability). Environmental factors determine the type of leader behaviour required if subordinate outcomes are to be maximised; personal characteristics of the follower determine how the environment and leader behaviour are interpreted. The theory proposes that a leader's behaviour won't be effective if it's inconsistent with what the environmental structure is providing or is incongruent with follower characteristics. For example, the following are some predictions from path–goal theory.

- When tasks are relatively unstructured, ambiguous or stressful, directive leadership leads to greater follower satisfaction. The followers aren't sure what to do, so the leader needs to give them some direction.
- When tasks are ambiguously structured, achievement-oriented leadership will increase subordinates' expectancies that effort will lead to high performance. By setting challenging goals, followers know what the expectations are.
- When subordinates are performing structured tasks, supportive leadership results in high employee performance and satisfaction. In this situation, the leader only needs to support followers, not tell them what to do.
- Subordinates with high perceived ability or with considerable experience are likely to perceive directive leadership as redundant. These followers are quite capable, so they don't need a leader to tell them what to do.
- The clearer and more bureaucratic the formal authority relationships, the more leaders should exhibit supportive behaviour and de-emphasise directive behaviour. The organisational situation has provided the structure as far as what is expected of followers, so the leader's role is simply to support.
- When there is substantive conflict within a work group, directive leadership will lead to higher employee satisfaction. In this situation, the followers need a leader who will take charge.
- Subordinates with an internal locus of control will be more satisfied with a participative style. Because these followers believe that they control what happens to them, they prefer to participate in decisions.

- Subordinates with an external locus of control will be more satisfied with a directive style. These followers believe that what happens to them is a result of the external environment, so they would prefer a leader who tells them what to do.

Figure 13.2 Path–goal model



Research findings on the path–goal model have been mixed because the theory has so many variables to examine. Although not every study has found support, we can still say that evidence supports the logic underlying the theory.[22] That is, an employee's performance and satisfaction are likely to be positively influenced when the leader chooses a leadership style that compensates for shortcomings in either the employee or the work setting. However, if the leader spends time explaining tasks that are already clear, or when the employee has the ability and experience to handle them without interference, the employee is likely to see such directive behaviour as redundant or even insulting.

What is leadership like today?

Learning outcome 13.4 Describe modern views of leadership and the issues facing today's leaders.

What are the latest views of leadership, and what issues do today's leaders have to deal with? In this section, we'll look at four contemporary views of leadership: leader–member exchange, transformational–transactional leadership, charismatic–visionary leadership and team leadership. In addition, we'll discuss some issues that leaders have to face in leading effectively in today's environment.

What do the four contemporary views of leadership tell us?

Remember our discussion at the beginning of this chapter where we said that leadership studies have long had the goal of describing what it takes to be an effective leader? That goal hasn't changed! Even the contemporary views of leadership are interested in answering that question. These views of leadership have a common theme: leaders who interact with, inspire and support followers.

How do leaders interact with followers?

Have you ever been in a group in which the leader had 'favourites' who made up their in-group? If so, that's the premise behind leader–member exchange theory.[23] **Leader–member exchange (LMX) theory** says that leaders create in-groups and out-groups, and that those in the in-group will have higher performance ratings, less turnover and greater job satisfaction than those in the out-group.

leader–member exchange (LMX) theory
A leadership theory that says leaders create in-groups and out-groups, and that those in

the in-group will have higher performance ratings, less turnover and greater job satisfaction

LMX theory suggests that, early on in the relationship between a leader and a given follower, a leader will implicitly categorise a follower as an ‘in’ or an ‘out’. That relationship tends to remain fairly stable over time. Leaders also encourage LMX by rewarding those employees with whom they want a closer linkage and by punishing those with whom they don’t want a closer linkage.[24] For the LMX relationship to remain intact, however, both the leader and the follower must ‘invest’ in the relationship.

It’s not exactly clear how a leader chooses who falls into each category, but evidence indicates that in-group members have demographic, attitude, personality and even gender similarities with the leader, or they have a higher level of competence than out-group members.[25] The leader does the choosing, but the follower’s characteristics drive the decision.

Research on LMX has been generally supportive. It appears that leaders do differentiate among followers; that these disparities aren’t random; and that followers with in-group status will have higher performance ratings, engage in more helping or ‘citizenship’ behaviours at work, and report greater satisfaction with their boss.[26] These findings probably shouldn’t be surprising when leaders are

most likely to invest their time and other resources in those whom they expect to perform best.

How do transactional leaders differ from transformational leaders?

Many early leadership theories viewed leaders as **transactional leaders** – that is, leaders who lead primarily by using social exchanges (or transactions). Transactional leaders guide or motivate followers to work towards established goals by exchanging rewards for their productivity.[27] But another type of leader – a **transformational leader** – stimulates and inspires (transforms) followers to achieve extraordinary outcomes. How? By paying attention to the concerns and developmental needs of individual followers; by changing followers' awareness of issues by helping those followers look at old problems in new ways; and by being able to excite, arouse and inspire followers to exert extra effort to achieve group goals.

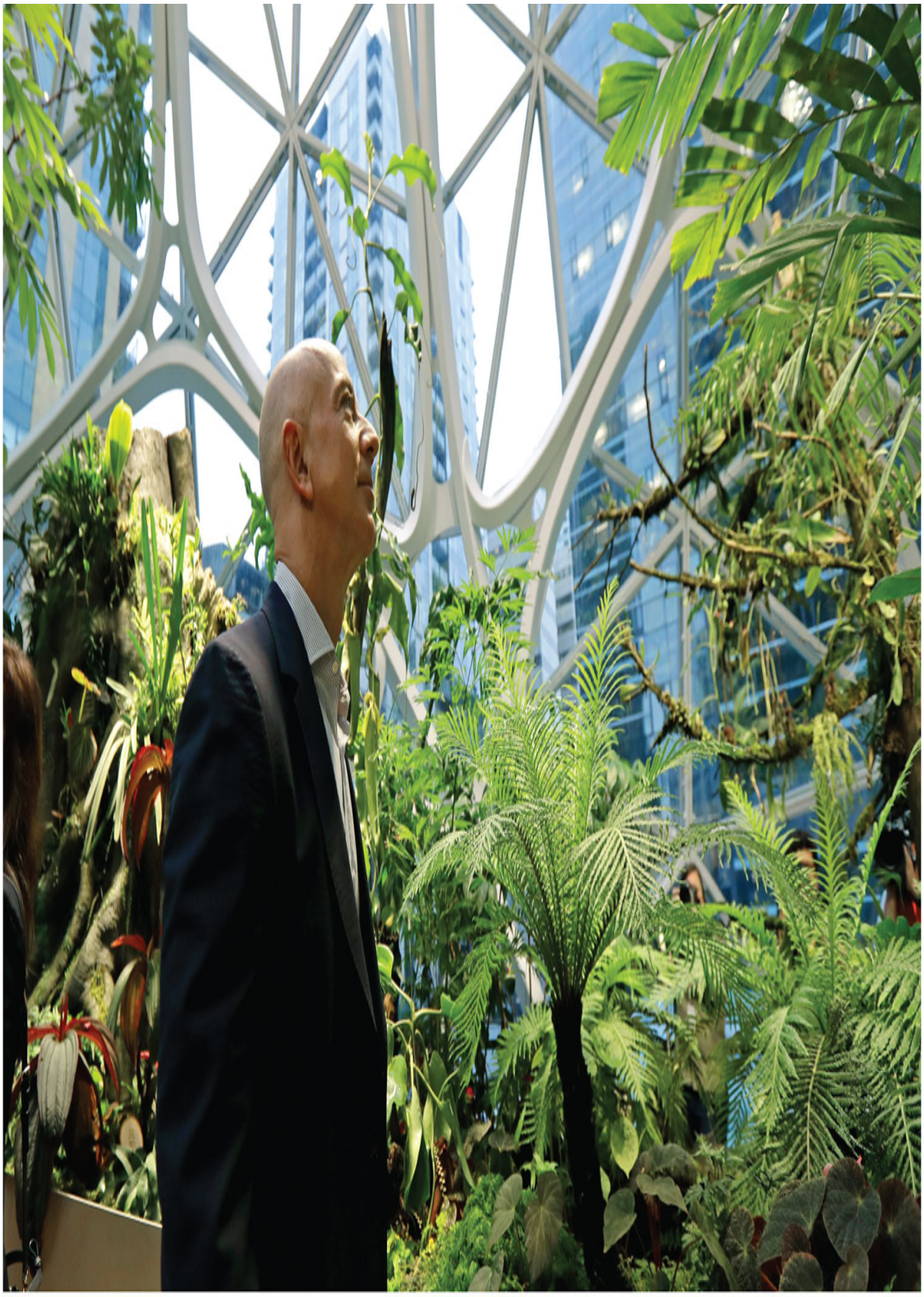
transactional leader
: Leader who leads primarily by using social exchanges (or transactions)

transformational leader

Leader who stimulates and inspires (transforms) followers to achieve extraordinary outcomes

Transactional and transformational leadership shouldn't be viewed as opposing approaches to getting things done.[28] Transformational leadership develops from transactional leadership. Transformational leadership produces levels of employee effort and performance that go beyond what would occur with a transactional approach alone. Moreover, transformational leadership is more than charisma, since the transformational leader attempts to instil in followers the ability to question not only established views but also those views held by the leader.[29]

The evidence supporting the superiority of transformational leadership over transactional leadership is overwhelmingly impressive. For example, studies that looked at managers in different settings, including the armed forces and business, found that transformational leaders were evaluated as more effective, higher performers, more promotable than their transactional counterparts and more interpersonally sensitive.[30] In addition, evidence indicates that transformational leadership is strongly correlated with lower turnover rates and higher levels of productivity, work engagement, employee satisfaction, creativity, goal attainment and follower wellbeing.[31]



Amazon.com founder Jeff Bezos is a charismatic leader described as energetic, enthusiastic, optimistic and self-confident. Bezos has the drive to set and pursue goals for risky new ventures and uses his charisma to inspire his employees to work hard to achieve them. Bezos is shown here at the opening of the Spheres, plant-filled domes that serve as work and gathering places for employees.

Ted S. Warren/AP Images

How do charismatic leadership and visionary leadership differ?

Jeff Bezos, the founder of Amazon.com, is a person who exudes energy, enthusiasm and drive.[32] He is fun loving, but pursued his vision for Amazon with serious intensity and demonstrated an ability to inspire his employees through the ups and downs of a rapidly growing company. Bezos is what we call a **charismatic leader** – that is, an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

charismatic leader

Enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways

Several authors have attempted to identify personal characteristics of the charismatic leader.[33] The most comprehensive analysis identified five such characteristics: they have a vision, the ability to articulate that vision, willingness to take risks to achieve that vision, sensitivity to both environmental constraints and follower needs, and behaviours that are out of the ordinary.[34]

> It's good to be **charismatic**!

An increasing body of evidence shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.[35] Although one study found that charismatic CEOs had no impact on subsequent organisational performance, charisma is still believed to be a desirable leadership quality.[36]

If charisma is desirable, can people learn to be charismatic leaders? Or are charismatic leaders born with their qualities? Although a small number of experts still think that charisma can't be learnt, most believe that individuals can be trained to exhibit charismatic behaviours.[37] For example, researchers have succeeded in teaching undergraduate students to 'be' charismatic. Students were taught to articulate a far-reaching goal, communicate high performance expectations, exhibit confidence in the ability of subordinates to meet those expectations, and empathise with the needs of their subordinates; they learnt to project a powerful, confident and dynamic presence; and they practised using a captivating and engaging voice tone. The researchers also trained the student leaders to use charismatic non-verbal behaviours, including leaning towards the

follower when communicating, maintaining direct eye contact, and having a relaxed posture and animated facial expressions. In groups with these 'trained' charismatic leaders, members had higher task performance, higher task adjustment, and better adjustment to the leader and to the group than did group members who worked in groups led by non-charismatic leaders.

One last thing we should say about charismatic leadership is that it may not always be necessary to achieve high levels of employee performance. It may be most appropriate when the follower's task has an ideological purpose or when the environment involves a high degree of stress and uncertainty.[38] This aspect may explain why, when charismatic leaders surface, it's more likely to be in politics, religion or wartime; or when a business firm is starting up or facing a survival crisis. For example, Martin Luther King, Jr used his charisma to bring about social equality through non-violent means, and Steve Jobs achieved unwavering loyalty and commitment from Apple's technical staff in the early 1980s by articulating a vision of personal computers that would dramatically change the way people lived.

Although the term *vision* is often linked with charismatic leadership, **visionary leadership** is different: it's the ability to create and articulate a realistic, credible and attractive vision of the future that improves on the present situation.[39] This vision, if properly selected and implemented, is so energising that it 'in effect jump-starts the future by calling forth the skills, talents and resources to make it happen'.[40]

visionary leadership

The ability to create and articulate a realistic, credible and attractive vision of the future that improves on the present situation

Managing for sustainability: Leading sustainability

As we've discussed throughout this book, leadership on sustainability issues can emerge from any level or area of an organisation. In fact, the Sustainability Leadership Institute has proposed that 'anyone willing to challenge old assumptions and genuinely engage with others to find integrated and long term solutions can be a sustainability leader' and has identified eight key practices or behaviours of sustainability leaders:[41]

- empowering themselves to take responsibility for leading change
- being consciously aware of themselves and how they are interacting with others
- creating transformative change by developing creative tension and leveraging power relationships to find solutions for sustainability issues
- being aware of the social dynamics of change
- creating conversations between people with diverse perspectives to generate new understandings and solutions
- engaging in holistic thinking to understand interrelationships between people, organisations and their environment, and to understand the consequences of possible actions

- continuously learning by experimenting, reflecting, learning from others and sharing their lessons
- treating leadership and change as occurring in fluid contexts and constantly updating plans and expectations to reflect new developments.

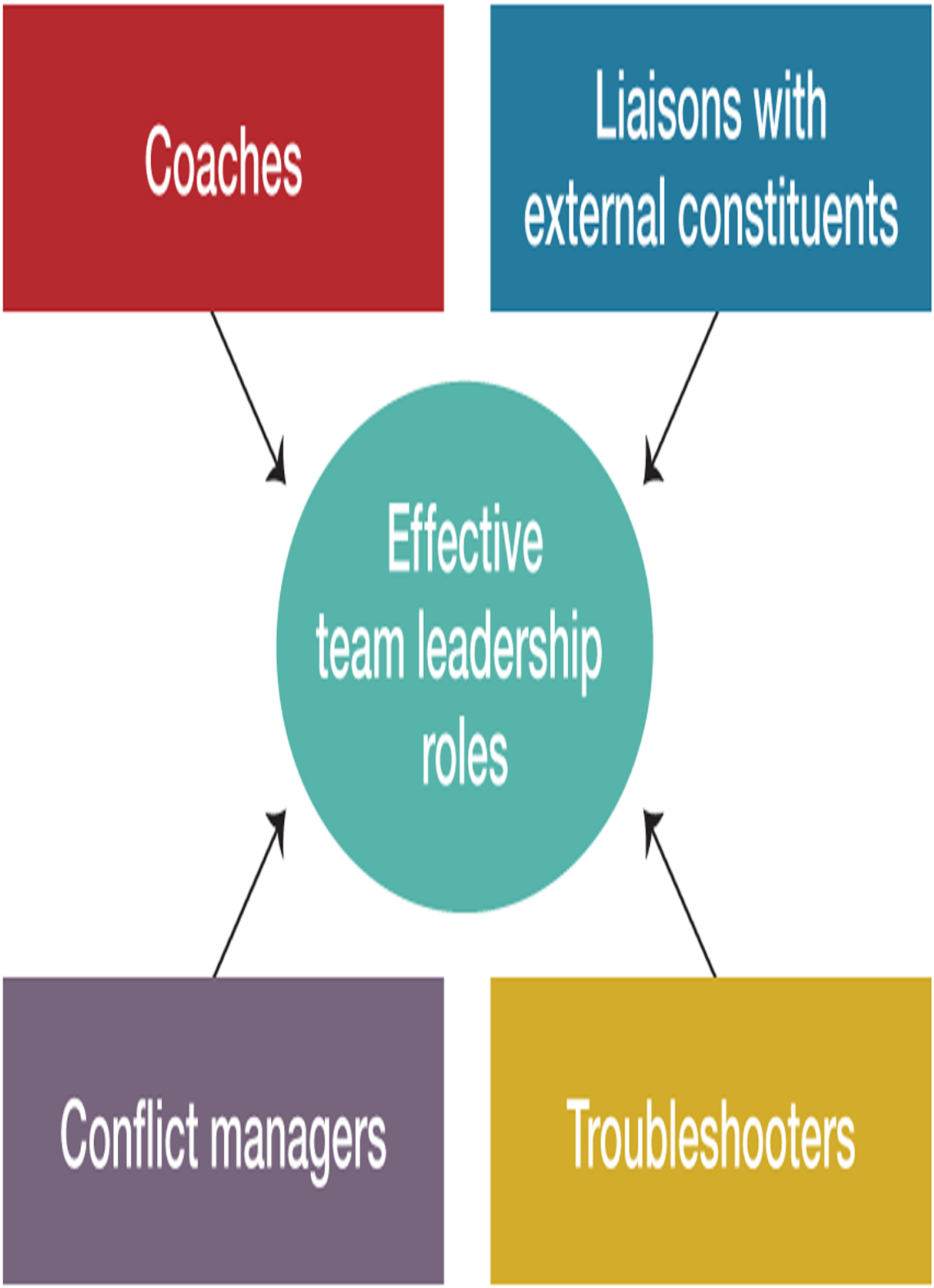
An organisation's vision should offer clear and compelling imagery that taps into people's emotions and inspires enthusiasm to pursue the organisation's goals. It should be able to generate possibilities that are inspirational and unique and offer new ways of doing things that are clearly better for the organisation and its members. Visions that are clearly articulated and have powerful imagery are easily grasped and accepted. For example, Yvon Chouinard, the founder of Patagonia, had a simple but compelling vision for the company: to use his business to save the planet.[42]

What about leaders and teams?

Because leadership is increasingly taking place within a team context and more organisations are using work teams, the role of the leader in guiding team members has become increasingly important. One study looking at organisations that had reorganised themselves around employee teams found certain common responsibilities of all leaders. These responsibilities included coaching, facilitating, handling disciplinary problems, reviewing team and individual performance,

training and communication.[43] However, a more meaningful way to describe the team leader's job is to focus on two priorities: (1) managing the team's external boundary; and (2) facilitating the team process.[44] These priorities entail four specific leadership roles, as shown in **Figure 13.3**.

Figure 13.3 Team leader roles


Coaches
Liaisons with external constituents
Effective team leadership roles
Conflict managers
Troubleshooters

However, many leaders aren't equipped to handle the change to employee teams. As one consultant noted, 'Even the most capable managers have trouble making the transition because all the command-and-control type things they were encouraged to do before are no longer appropriate. There's no reason to have any skill or sense of this.'[45] This same consultant estimated that 'probably 15 per cent of managers are natural team leaders; another 15 per cent could never lead a team because it runs counter to their personality – that is, they're unable to sublimate their dominating style for the good of the team. Then there's that huge group in the middle: Team leadership doesn't come naturally to them, but they can learn it.'[46]

> The **most 'dangerous' leadership trait**: 32 per cent of team members say **indecisiveness and over-cautiousness**; 26 per cent say **selfishness**.[47]

The challenge for many managers is learning how to become an effective team leader. They have to learn skills such as patiently sharing information, being able to trust others and to give up authority, and understanding when to intervene. Effective team leaders have mastered the difficult balancing act of knowing when to leave their teams alone and when to get involved. New team leaders may try to retain too much control at a time when team members need more autonomy, or they may abandon their teams at times when the teams need support and help.[48]

What issues do today's leaders face?

Leading effectively in today's environment involves challenges for many leaders. Twenty-first-century leaders face some important leadership issues. In this section, we look at these issues, including empowering employees, cross-cultural leadership, and emotional intelligence and leadership.

> Say what? **Lead by NOT leading**.

Why do leaders need to empower employees?

As we've described in different places throughout the text, managers are increasingly leading by not leading – that is, by empowering their employees. **Empowerment** involves increasing the decision-making discretion of workers. Millions of individual employees and employee teams are making the key operating decisions that directly affect their work. They're developing budgets, scheduling workloads, controlling inventories, solving quality problems, and engaging in

similar activities that until very recently were viewed exclusively as part of the manager's job.[49]

empowerment
When employees have decision-making discretion

One reason more companies are empowering employees is the need for quick decisions by those people who are most knowledgeable about the issues – often those at lower organisational levels. If organisations want to successfully compete in a dynamic global economy, employees have to be able to make decisions and implement changes quickly. Another reason is that organisational downsizings left many managers with larger spans of control. In order to cope with the increased work demands, managers had to empower their people. Although empowerment isn't a universal answer, it can be beneficial when employees have the knowledge, skills and experience to do their jobs competently.

Does national culture affect leadership?

One general conclusion that surfaces from leadership research is that effective leaders don't use a single style. They adjust their style to the situation. Although not mentioned explicitly, national culture is certainly an important situational variable in determining which leadership style will be most effective. What works in China isn't likely to be effective in France or Canada. For example, one study of Asian leadership styles revealed that Asian managers preferred leaders who were competent decision makers, effective communicators and supportive of employees.[50] Another study of leadership in Sub-Saharan Africa found that charismatic leaders can help overcome cultural problems of corruption, poverty, tribalism and violence.[51]

In China, the cultural value of collectivism affects the relationship between leaders and followers such as Yuki Tan, president of fashion retailer Folli Follie China, and store employees. During store visits, Tan displays her effective paternalistic leadership style of caring for her loyal, dependable and hard-working employees.

Ton Koene/ZUMApress/Newscom

National culture affects leadership style because it influences how followers will respond. Leaders can't (and shouldn't) just choose their styles randomly. They're constrained by the cultural conditions their followers have come to expect. **Table 13.2** provides some findings from selected examples of cross-cultural leadership studies. Because most leadership theories were developed in the United States, they have an American bias. They emphasise follower responsibilities rather than rights; assume self-gratification rather than commitment to

duty or altruistic motivation; assume centrality of work and democratic value orientation; and stress rationality rather than spirituality, religion or superstition.[52] However, the GLOBE research program, which we first introduced in the chapter on the external organisational environment, is the most extensive and comprehensive cross-cultural study of leadership ever undertaken. The GLOBE study has found that there are some universal aspects to leadership. Specifically, a number of elements of transformational leadership appear to be associated with effective leadership regardless of what country the leader is in.[53] These elements include vision, foresight, providing encouragement, trustworthiness, dynamism, positivity and proactiveness. The results led two members of the GLOBE team to conclude that 'effective business leaders in any country are expected by their subordinates to provide a powerful and proactive vision to guide the company into the future, strong motivational skills to stimulate all employees to fulfil the vision, and excellent planning skills to assist in implementing the vision'.[54] Some people suggest that the universal appeal of these transformational leader characteristics is due to the pressures towards common technologies and management practices, as a result of global competitiveness and multinational influences.

Table 13.2 Cross-cultural leadership

Sources: Based on J. C. Kennedy, 'Leadership in Malaysia: Traditional Values, International Outlook', Academy of Management Executive, August 2002, pp. 15–17; F. C. Brodbeck, M. Frese and M. Javidan, 'Leadership Made in Germany: Low on Compassion, High on Performance', Academy of Management Executive, February 2002, pp. 16–29; M. F. Peterson and J. G. Hunt, 'International Perspectives on International Leadership', Leadership Quarterly, Fall 1997, pp. 203–31; R. J. House and R. N. Aditya, 'The Social Scientific Study of Leadership: Quo

Vadis?', Journal of Management, vol. 23, no. 3 (1997), p. 463; and R. J. House, 'Leadership in the Twenty-First Century', in A. Howard (ed.), The Changing Nature of Work (San Francisco: Jossey-Bass, 1995), p. 442.

> Becoming a STAR ✯ leader.

How does emotional intelligence affect leadership?

We introduced emotional intelligence (EI) in our discussion of emotions in the chapter on understanding individual behaviour. We revisit the topic here because of recent studies indicating that EI – more than IQ, expertise or any other single factor – is the best predictor of who will emerge as a leader.[55]

As we said in our earlier discussion of trait research, leaders need basic intelligence and job-relevant knowledge. But IQ and technical skills are 'threshold capabilities'. They're necessary, but not sufficient, requirements for leadership. It's the possession of the five components of emotional intelligence – self-awareness, self-management, self-motivation, empathy and social skills – that allows an individual to become a star performer. Without EI, a person can have outstanding training, a highly analytical mind, a long-term vision and an endless supply of terrific ideas, but still not make a great leader, especially as individuals move up in an organisation. The evidence indicates that the higher the rank of a person considered to be a star performer, the more that EI capabilities surface as the

reason for their effectiveness. Specifically, when star performers were compared with average ones in senior management positions, nearly 90 per cent of the difference in their effectiveness was attributable to EI factors rather than basic intelligence.

EI has been shown to be positively related to job performance at all levels. But it appears to be especially relevant in jobs that demand a high degree of social interaction. And, of course, that's what leadership is all about. Great leaders demonstrate their EI by exhibiting all five of its key components – self-awareness, self-management, self-motivation, empathy and social skills.

Although there has been some controversy about the role of emotional intelligence in leadership,[56] most research makes a case for concluding that EI is an essential element in leadership effectiveness.[57] As such, it could be added to the list of traits associated with leadership that we described earlier in the chapter.

Why is trust the essence of leadership?

Learning outcome 13.5 Discuss trust as the essence of leadership.

Trust, or lack of trust, is an increasingly important issue in today's organisations.[58] In the current uncertain environment, leaders need to build, or even rebuild, trust and credibility. Before we can discuss ways leaders can do that, we have to know what trust and credibility are and why they're so important.

Followers judge a leader's **credibility** in terms of their honesty, competence and ability to inspire. The main component of credibility is honesty. Surveys show that honesty is consistently singled out as the number one characteristic of admired leaders. 'Honesty is absolutely essential to leadership. If people are going to follow someone willingly, whether it be into battle or into the boardroom, they first want to assure themselves that the person is worthy of their trust.'[59] In addition to being honest, credible leaders are competent and inspiring. They are personally able to effectively communicate their confidence and enthusiasm, which helps them win their followers' trust.

credibility

The degree to which followers perceive someone as honest, competent and able to inspire

Trust is closely entwined with the concept of credibility and, in fact, the terms are often used interchangeably. **Trust** is defined as the belief in the integrity, character and ability of a leader. Followers who trust a leader are willing to be vulnerable to the leader's actions because they are confident that their rights and interests won't be abused.[60] Research has identified five dimensions that make up the concept of trust:

- **Integrity:** honesty and truthfulness.
- **Competence:** technical and interpersonal knowledge and skills.
- **Consistency:** reliability, predictability and good judgment in handling situations.
- **Loyalty:** willingness to protect a person, physically and emotionally.
- **Openness:** willingness to share ideas and information freely.[61]

trust

> The belief in the integrity, character and ability of a leader

Of these five dimensions, integrity seems to be the most critical when someone assesses another's trustworthiness.[62] Both integrity and competence were seen in our earlier discussion of leadership traits found to be consistently associated with leadership.

Workplace changes have reinforced why such leadership qualities are important. For example, trends of employee empowerment and self-managed work teams have reduced many of the traditional control mechanisms used to monitor employees. If a work team is free to schedule its own work, evaluate its own performance and even to make its own hiring decisions, trust becomes critical. Employees have to trust managers to treat them fairly, and managers have to trust employees to conscientiously fulfil their responsibilities.

Also, leaders have to increasingly lead others who may not be in their immediate work group or may even be physically separated – members of cross-functional or virtual teams, individuals who work for suppliers or customers, and perhaps even people who represent other organisations through strategic alliances. These situations don't allow leaders the luxury of falling back on their formal positions for influence. Many of these relationships, in fact, are fluid and fleeting. So, the ability to quickly develop trust, and to sustain that trust, is crucial to the success of the relationship.

A question of ethics: Follow the money

Sometimes there's a fine line between right and wrong, and sometimes that line is . . . worth about $5. In New Zealand, political parties are legally required to disclose donations worth NZ$15,000 or more. (They are not required to disclose loans.) In 2020, the New Zealand First political party came under scrutiny for its handling of political donations.[63] When questions were raised about where the party got its funding from, investigations revealed that:

- New Zealand First had only one declared source of funding: an organisation called New Zealand First Foundation.
- In recent years, the Foundation had received numerous donations from organisations owned or controlled by some of New Zealand's richest business people, but every individual payment totalled less than $15,000. In one case, the Foundation received two donations on the same day from two businesses owned by the same person . . . and each donation was for $14,995. In fact, since 2017, every single donation made to the Foundation has been for less than $15,000.

- Over the previous three years, New Zealand First had received three significant loans from the Foundation that were never publicly disclosed or repaid.

Technically, neither the Foundation nor New Zealand First had done anything wrong. Nevertheless, in February 2020 the Serious Fraud Office opened an investigation into the Foundation. When questioned about the loans New Zealand First received from the Foundation, Winston Peters initially claimed he knew nothing about them, even though he is the founder and leader of the party and a trustee of the Foundation.

Discuss this

- Can an action that is technically legal still be unethical?
- How do you think the donations scandal has affected the trustworthiness of New Zealand First and Winston Peters?

Managing for diversity and inclusion: Inclusive leadership

‘Inclusive leadership’ refers to the processes and people that make individuals with diverse characteristics (e.g. different ages, cultural backgrounds, genders, life stages) feel valued, valuable and respected, and that they have access to opportunities and resources, and are able to contribute their perspectives and capabilities to improve their organisations.[64] Research suggests that five capabilities contribute to effective inclusive leadership:

- **Identity awareness:** being consciously aware of the ways in which identity (including self-identity) influences perception and experience, including the ways in which it creates both advantages and disadvantages.
- **Being relational:** the ability to communicate effectively with people across different social and workplace identities and to build connections, including support pathways, for a diverse array of people.
- **Being open and curious:** staying curious about and open to new and different perspectives, actively and reflectively listening to diverse people, and ensuring that workplace practices, meeting times and social activities are deliberately designed to maximise participation.

- **Having an agile and flexible mindset:** consciously fostering different ways of thinking about issues and situations, and making flexible working a standard practice.
- **Being growth-focused:** questioning accepted views, incorporating different perspectives into how business is done, and challenging 'standard practice' by consciously challenging identity-based stereotyping, decision-making bias and exclusionary practices.

Why is it important that followers **trust their leaders**? Research has shown that trust in leadership is significantly related to positive job outcomes, including job performance, organisational citizenship behaviour, job satisfaction and organisational commitment.[65] Given the importance of trust to effective leadership, leaders need to build trust with their followers. Some suggestions are set out in **Table 13.3**.

Table 13.3 Suggestions for building trust

Sources: Based on P. S. Shockley-Zalabak and S. P Morreale, 'Building High-Trust Organizations', Leader to Leader, Spring 2011, pp. 39–45; J. K. Butler, Jr, 'Toward Understanding and Measuring Conditions of Trust: Evolution of a Condition of Trust Inventory', Journal of Management, September 1991, pp. 643–63; and F. Bartolome, 'Nobody Trusts the Boss Completely – Now What?', Harvard Business Review, March–April 1989, pp. 135–42.

Now, more than ever, managerial and leadership effectiveness depends on the ability to gain the trust of followers.[66] Downsizing, corporate financial misrepresentations and the increased use of temporary employees have undermined employees' trust in their

leaders and shaken the confidence of investors, suppliers and customers. Today's leaders are faced with the challenge of rebuilding and restoring trust with employees and with other important organisational stakeholders.

A final thought regarding leadership

Despite the belief that some leadership style will always be effective regardless of the situation, *leadership may not always be important*! Research indicates that, in some situations, any behaviours a leader exhibits are irrelevant. In other words, certain individual, job and organisational variables can act as 'substitutes for leadership', negating the influence of the leader.[67]

For example, follower characteristics such as experience, training, professional orientation, or need for independence can neutralise the effect of leadership. These characteristics can replace the employee's need for a leader's support or ability to create structure and reduce task ambiguity. Similarly, jobs that are inherently unambiguous and routine or that are intrinsically satisfying may place fewer demands on the leadership variable. Finally, such organisational characteristics as explicit formalised goals, rigid rules and procedures, or cohesive work groups can substitute for formal leadership.

Review

Chapter 13 summary

13.1 Define leader and leadership.
A leader is someone who can influence others and who has managerial authority. Leadership is a process of leading a group and influencing that group to achieve its goals. Managers should be leaders because leading is one of the four management functions.

13.2 Compare and contrast early leadership theories.
Early attempts to define leader traits were unsuccessful, although later attempts found seven traits associated with leadership.

The University of Iowa studies explored three leadership styles. The only conclusion was that group members were more satisfied under a democratic leader than under an autocratic one. The Ohio State studies identified two dimensions of leader behaviour: initiating structure and consideration. A leader high in both those dimensions at times achieved high group task performance and high group member satisfaction, but not always. The University of Michigan studies looked at employee- and production-oriented leaders. They concluded that leaders who were employee oriented could get high group productivity and high group member satisfaction. As the behavioural studies showed, a leader’s behaviour has a dual nature: a focus on the task and a focus on the people.

13.3 Describe the four main contingency leadership theories. Fiedler's model attempted to define the best style to use in particular situations. He measured leader style – relationship oriented or task oriented – using the least-preferred co-worker questionnaire. Fiedler also assumed that a leader's style was fixed. He measured three contingency dimensions: leader–member relations, task structure and position power. The model suggests that task-oriented leaders performed best in very favourable and very unfavourable situations, and relationship-oriented leaders performed best in moderately favourable situations.

Hersey and Blanchard's situational leadership theory focused on followers' readiness. They identified four leadership styles: telling (high task–low relationship), selling (high task–high relationship), participating (low task–high relationship) and delegating (low task–low relationship). They also identified four stages of readiness: unable and unwilling (use telling style); unable but willing (use selling style); able but unwilling (use participative style); and able and willing (use delegating style).

The leader-participation model relates leadership behaviour and participation to decision making. It uses a decision tree format with seven contingencies and five alternative leadership styles.

The path–goal model developed by Robert House identified four leadership behaviours: directive, supportive, participative and achievement-oriented. House assumes that a leader can and should be able to use any of these styles. The two situational contingency variables were found in the environment and in the follower. Essentially, the path–goal model says that a leader should

provide direction and support as needed; that is, structure the path so the followers can achieve goals.

13.4 Describe modern views of leadership and the issues facing today's leaders.

Leader–member exchange (LMX) theory says that leaders create in-groups and out-groups, and that those in the in-group will have higher performance ratings, less turnover and greater job satisfaction.

A transactional leader exchanges rewards for productivity, whereas a transformational leader stimulates and inspires followers to achieve goals.

A charismatic leader is an enthusiastic and self-confident leader whose personality and actions influence people to behave in certain ways. People can learn to be charismatic. A visionary leader is able to create and articulate a realistic, credible and attractive vision of the future.

A team leader has two priorities: manage the team's external boundary and facilitate the team process. Four leader roles are involved: liaison with external constituencies, troubleshooter, conflict manager and coach.

The issues facing leaders today include employee empowerment, national culture and emotional intelligence. As employees are empowered, the leader's role tends to be one of not leading. As leaders adjust their style to the situation, one of the most important

situational characteristics is national culture. Finally, EI is proving to be an essential element in leadership effectiveness.

13.5 Discuss trust as the essence of leadership.
The five dimensions of trust include integrity, competence, consistency, loyalty and truthfulness. Integrity refers to one's honesty and truthfulness. Competence involves an individual's technical and interpersonal knowledge and skills. Consistency relates to an individual's reliability, predictability and good judgment in handling situations. Loyalty is an individual's willingness to protect and save face for another person. Openness means that you can rely on the individual to give you the whole truth.

Discussion questions

13.1 Define the terms *leader* and *leadership* and discuss why managers should be leaders.
13.2 ‘The problems with trait theories of leadership is that they become self-fulfilling prophecies.’ Discuss.
13.3 What does each of the behavioural leadership theories say about leadership?
13.4 What would a manager need to know to use Fiedler’s contingency model? Be specific.
13.5 Do you think that most managers in real life use a contingency approach to increase their leadership effectiveness? Discuss.
13.6 How would LMX influence an organisation’s attempts to promote diversity and inclusiveness?
13.7 Do you think trust evolves out of an individual’s personal characteristics or out of specific situations? Explain.
13.8 Do followers make a difference in whether a leader is effective? Discuss.
13.9 Think of a leader you know (or know of) who has accomplished extraordinary outcomes. What type of leader were they: Transactional? Transformational? Charismatic? Visionary? Why do you think they were so successful?
13.10 When might leaders be irrelevant?

Management skills spotlight: Being a good leader

The terms *management* and *leadership* are frequently used interchangeably. That's a misnomer. The two aren't the same, but they *are* related. Although you don't need to hold a management position to be a leader, you're unlikely to be an effective manager if you can't be an effective leader.

Experiential exercise

Situational leadership theory says people lead differently, depending on the situation they are in. Do you?

In this exercise you are going to reflect on two experiences you have had of exercising leadership and guiding others as to (a) what should be done, and/or (b) how it should be done.

First, think about an example from a work setting (it could be paid work or volunteer work). Now think about an example from your personal or family life. Work through each example. What were you trying to achieve? Whose help did you ask for? How did you help them understand what you wanted to achieve? How did you help them understand how you wanted them to help you do that?

Now reflect on those two experiences.

1. Describe your experiences. Did you handle both situations in the same way? Or did you take a different approach each time? If so, what did you do differently?
2. Interpret your experience. If you adapted your leadership approach, why did you do that? If you did not, why did you use the same approach each time?
3. Evaluate your experience. What does your experience indicate about the extent to which people might *actually* adapt their

leadership style in different situations? What does it tell you about the factors that cause them to adapt their style?

4. How could you apply these lessons in the future? Next time you are exercising leadership, what will you focus on when you determine the leadership approach you will use?

Case application: Jacinda Ardern: Leading with flying colours

Jacinda Ardern's empathetic support of New Zealand's Muslim community in the wake of the Christchurch massacre won her followers around the world.

Adam Bradley/SOPA Images/ZUMA Wire/Alamy Live News

When Jacinda Ardern became leader of the New Zealand Labour party, she had only seven weeks to lead it into a national election.[68] Nonetheless, in October 2017 she became New Zealand's prime minister when the Greens and New Zealand First agreed to help Labour form a minority government.

Ardern's signature style is to bring her 'whole self' to her leadership role. In her first year as prime minister, she gave birth to her daughter Neve, and subsequently modelled an integration of parenting and political duties that other ministers emulated. In her second year, she became New Zealand's 'mourner in chief' when she led the country through two national tragedies: in March 2019, a self-proclaimed right-wing terrorist attacked worshippers at two mosques in

Christchurch, killing 51 people and wounding another 50; and less than a year later, a volcanic eruption on White Island killed 18 of the 47 people present on the island. Ardern's heartfelt address to the New Zealand Parliament in the wake of the Christchurch massacre was both sensitive and sympathetic: 'Many of those who will have been directly affected by this shooting may be migrants to New Zealand; they may even be refugees here . . . They are us . . . We cannot know your grief, but we can walk with you at every stage. We can and we will surround you with *aroha, manaakitanga* [kindness, compassion, generosity], and all that makes us *us*.' Her empathetic handling of the massacre and support for the families and community members of the victims led to an image of her hugging a woman at the Kilburnie Mosque in Wellington being beamed onto the tallest building in the world, the 829-metre-tall Burj Khalifa skyscraper in Dubai.

In 2020, Ardern's straightforward and empathetic style proved invaluable as she led New Zealand through the COVID-19 pandemic. Uniquely, the country adopted an elimination strategy and implemented 'the most decisive and strongest lockdown in the world' in order to use physical distancing and quarantine measures to 'break the chain' of transmission. Ardern's advice to the population was simple and succinct: 'Be calm, be kind, stay at home . . . If you have any questions about what you can or can't do . . . apply a single principle. Act like you have COVID-19.' When New Zealand's health minister, David Clark, breached lockdown by taking his family to the beach, Ardern stated baldly that she would have sacked

him. ‘But right now . . . we cannot afford massive disruption in the health sector or to our response. For that reason, and that reason alone, Dr Clark will maintain his role.’ Instead, she stripped Clark of his finance portfolio and demoted him to the bottom ranking of her cabinet. In this she may have learnt from past challenges. Earlier in 2020, Winston Peters, leader of the New Zealand First party and her deputy prime minister, was accused of misconduct relating to political donations (see the A Question of Ethics box earlier in this chapter) and Ardern was criticised for not censuring his behaviour or standing him down from his ministerial portfolios.

Ardern’s leadership style has won fans around the world. But as one critic put it, ‘On empathy, she passes with flying colours [but] empathy is only part of the job of running a country.’ During the 2017 election campaign, Ardern’s Labour party promised to build 100,000 new houses in New Zealand and to introduce a capital gains tax. Neither occurred, raising the possibility that these failures would count against Ardern and Labour at New Zealand’s general election in October 2020. It didn’t: Labour won a landslide victory and formed the first majority government in New Zealand since 1996, and New Zealand First were voted out of government.

Discussion questions

13.11 What sort of leadership behaviours does Jacinda Ardern demonstrate?

13.12 Applying situational leadership theory, what leadership style did Ardern use during the COVID-19 pandemic?

13.13 Would you describe Jacinda Ardern as a transformational, visionary or charismatic leader?

13.14 Which dimensions of trust do you think have been the most important for Jacinda Ardern’s leadership?

Running case: Holiday home helpers: Leadership and trust

Mia had been at HHH for a month when she rang the CEO with a request. ‘Skylar, I’m hiring a new assistant and one of my former employees, Bella, has applied for the job. Sierra in HR has been vetting the applications and tells me Bella has been shortlisted for an interview. I’m calling to ask if you could please take my place on the interview panels for the position.’

‘If I can fit it in my schedule, I will,’ said Skylar. ‘Can I ask why you want me to replace you?’

‘If I’m on the panel, there’s a potential conflict of interest. People can’t trust the process if there is any room to doubt whether it was done correctly. People here know Bella used to work for me. If you’re on the panel instead of me, there can be no question that her knowing me influenced any decisions about her getting the job.’

‘Okay,’ said Skylar. ‘I’ll talk to Sierra and see what we can schedule.’

A week later, during the interview with Bella, Skylar asked her: ‘What made you apply for this position?’

‘The role looked interesting, but the main reason was that I want to work with Mia again,’ said Bella.

‘You must really be good friends,’ said Skylar.

‘No,’ said Bella. ‘We have a good rapport, but we aren’t friends. But we had the best working relationship I have ever had with anyone, and I want that again. I know it will be rewarding to be part of what she’s doing here.’

‘That’s a pretty strong endorsement!’ said Skylar. ‘What is it that you like so much about working for her?’

‘She values excellence, and she cultivates it in her staff. She promises her clients excellent service and she is crystal-clear with her staff that that’s what she expects them to provide. But she puts her money where her mouth is. She gives them very thorough training and guidance, so they know how to deliver the standard she’s asking for. She makes sure they have the equipment and materials they need to do the job well. She has eyes like a hawk, which means she will notice every detail of how a job has been done. So, if you miss something you know she’ll spot it, but if you ace it you know she’ll spot that, too. She’s not lavish with praise, but she is always sincere. Sometimes it takes a bit of getting used to, but once you do it’s very powerful!’

‘What do you mean?’ asked Skylar.

‘Well, my second-last boss before Mia wanted everything done perfectly, but they weren’t very organised. So, they were

constantly stressed that things weren't going to get done in time, and always looking over my shoulder and telling me what needed to be done next. I felt constantly under the pump and under surveillance. My next boss was the opposite. If I asked for feedback, they'd say: "You're doing a great job"; and if I asked what I could improve, they'd say: "Nothing, you're doing fine." But I realised that that's because they didn't really know what I did! Mia gives me space to be good at what I do. She tells me what she wants. She checks that I have what I need to do it. Then she lets me get on with it. She trusts me to do an excellent job, and that makes me want to, because I know that she'll notice when I do. When I first started working for her, she told me I was very thorough. I said, "That's kind of you to say." And she said, "No, it isn't; it's factually correct. When you check over a house to make sure it's ready for guests, you don't just look over the rooms from the doorway; you look in every cupboard and drawer, behind every door and under every bed. And because I know you do it that way every time, I know I don't have to check it myself. That means a lot to me." And I felt kind of stunned that she had been paying such close attention to what I did, but I also felt really valued. Last time I asked her how I could improve, she said: "Step up. You've been in this role for a while and you've learnt everything you can learn from it. If you want to stay in it for a while and coast along on the work you've already done, that's completely fine. But if you want to improve, you'll need to take it to the next level." So, here I am!'

Discussion questions

13.15 What makes Mia a leader? How does she influence Bella?

13.16 What styles of leadership behaviours are mentioned in this case?

13.17 According to Bella, which of House's four leadership behaviours does Mia use?

13.18 How does Mia inspire and empower her team members?

13.19 How does Mia generate trust?

Endnotes

1 D. Morrison, 'Chief of Army Lieutenant General David Morrison Message about Unacceptable Behaviour', **https://www.youtube.com/watch?v=QaqpoeVgr8U**, 12 June 2013, accessed 21 October 2017; 'Chief of Army Lieutenant General David Morrison Introduces New Army Value "Respect"', **https://www.youtube.com/watch?v=ENL6zDhzUxs**, 4 July 2013, accessed 22 October 2017; D. Morrison and L. Sales, '"Create the Society You Want to Live in" urges Chief of Army', *The 7.30 Report*, 11 May 2015; and H. Davidson, 'David Morrison, Former Chief of Army, Named Australian of the Year', *The Guardian*, 25 January 2016.

2 Most leadership research has focused on the actions and responsibilities of managers and extrapolated the results to leaders and leadership in general.

3 See T. A. Judge, J. E. Bono, R. Ilies and M. W. Gerhardt, 'Personality and Leadership: A Qualitative and Quantitative Review', *Journal of Applied Psychology*, August 2002, pp. 765–80; and S. A. Kirkpatrick and E. A. Locke, 'Leadership: Do Traits Matter?', *Academy of Management Executive*, May 1991, pp. 48–60.

4 K. Lewin and R. Lippitt, 'An Experimental Approach to the Study of Autocracy and Democracy: A Preliminary Note', *Sociometry*, vol. 1 (1938), pp. 292–300; K. Lewin, 'Field Theory and Experiment in Social Psychology: Concepts and Methods', *American Journal of Sociology*, vol. 44 (1939), pp. 868–96; K. Lewin, R. Lippitt and R. K. White, 'Patterns of Aggressive Behavior in Experimentally Created Social Climates', *Journal of Social Psychology*, vol. 10 (1939), pp. 271–301; and R. Lippitt, 'An Experimental Study of the Effect of Democratic and Authoritarian Group Atmospheres', *University of Iowa Studies in Child Welfare*, vol. 16 (1940), pp. 43–95.

5 B. M. Bass, *Stodgill's Handbook of Leadership* (New York: Free Press, 1981), pp. 298–9.

6 R. Tannenbaum and W. H. Schmidt, 'How to Choose a Leadership Pattern', *Harvard Business Review*, May/June 1973, pp. 162–80.

7 R. M. Stodgill and A. E. Coons (eds), *Leader Behavior: Its Description and Measurement*, Research Monograph no. 88 (Columbus, OH: Ohio State University, Bureau of Business Research, 1951). See also S. Kerr, C. A. Schriesheim, C. J. Murphy and R. M. Stodgill, 'Toward a Contingency Theory of Leadership Based upon

the Consideration and Initiating Structure Literature', *Organizational Behavior and Human Performance*, August 1974, pp. 62–82; and B. M. Fisher, 'Consideration and Initiating Structure and Their Relationships with Leader Effectiveness: A Meta Analysis', in F. Hoy (ed.), *Proceedings of the 48th Annual Academy of Management Conference* (Anaheim, CA: 1988), pp. 201–5.

8 R. Kahn and D. Katz, 'Leadership Practices in Relation to Productivity and Morale', in D. Cartwright and A. Zander (eds), *Group Dynamics: Research and Theory*, 2nd edn (Elmsford, NY: Pow, Paterson, 1960).

9 Classic Concepts in Today's Organisations box based on D. S. Derue, J. D. Nahrgang, N. Wellman and S. E. Humphrey, 'Trait and Behavioral Theories of Leadership: An Integration and Meta-Analytic Test of Their Relative Validity', *Personnel Psychology*, Spring 2011, pp. 7–52; and D. A. Wren and A. G. Bedeian, *The Evolution of Management Thought*, 6th edn (Hoboken, NJ: John Wiley & Sons, 2009), pp. 345–6.

10 W. G. Bennis, 'The Seven Ages of the Leader', *Harvard Business Review*, January 2004, p. 52.

11 F. E. Fiedler, *A Theory of Leadership Effectiveness* (New York: McGraw-Hill, 1967).

12 R. Ayman, M. M. Chemers and F. Fiedler, 'The Contingency Model of Leadership Effectiveness: Its Levels of Analysis', *Leadership Quarterly*, Summer 1995, pp. 147–67; C. A. Schriesheim, B. J. Tepper and L. A. Tetrault, 'Least Preferred Co-Worker Score, Situational Control and Leadership Effectiveness: A Meta-Analysis of Contingency Model Performance Predictions', *Journal of Applied Psychology*, August 1994, pp. 561–73; and L. H. Peters, D. D.

Hartke and J. T. Pholmann, 'Fiedler's Contingency Theory of Leadership: An Application of the Meta-Analysis Procedures of Schmidt and Hunter', *Psychological Bulletin*, March 1985, pp. 274–85.

13 See B. Kabanoff, 'A Critique of Leader Match and Its Implications for Leadership Research', *Personnel Psychology*, Winter 1981, pp. 749–64; and E. H. Schein, *Organizational Psychology*, 3rd edn (Upper Saddle River, NJ: Prentice Hall, 1980), pp. 116–17.

14 P. Hersey and K. H. Blanchard, *Management of Organizational Behavior: Leading Human Resources*, 8th edn (Englewood Cliffs, NJ: Prentice Hall, 2001); and P. Hersey and K. Blanchard, 'So You Want to Know Your Leadership Style?', *Training and Development Journal*, February 1974, pp. 1–15.

15 See, for example, E. G. Ralph, 'Developing Managers' Effectiveness: A Model with Potential', *Journal of Management Inquiry*, June 2004, pp. 152–63; C. L. Graeff, 'Evolution of Situational Leadership Theory: A Critical Review', *Leadership Quarterly*, vol. 8, no. 2 (1997), pp. 153–70; and C. F. Fernandez and R. P. Vecchio, 'Situational Leadership Theory Revisited: A Test of an Across-Jobs Perspective', *Leadership Quarterly*, vol. 8, no. 1 (1997), pp. 67–84.

16 V. H. Vroom and P. W. Yetton, *Leadership and Decision Making* (Pittsburgh, PA: University of Pittsburgh Press, 1973).

17 V. H. Vroom and A. G. Jago, *The New Leadership: Managing Participation in Organizations* (Upper Saddle River, NJ: Prentice Hall, 1988). See especially Chapter 8.

18 For additional information about the exchanges that occur between the leader and the follower, see A. S. Phillips and A. G. Bedeian, 'Leader Follower Exchange Quality: The Role of Personal

and Interpersonal Attributes', *Academy of Management Journal*, vol. 37, no. 4 (1994), pp. 990–1001; and T. A. Scandura and C. A. Schriesheim, 'Leader Member Exchange and Supervisor Career Mentoring as Complementary Constructs in Leadership Research', *Academy of Management Journal*, vol. 37, no. 6 (1994), pp. 1588–602.

19 See, for example, R. H. G. Field and R. J. House, 'A Test of the Vroom Yetton Model Using Manager and Subordinate Reports', *Journal of Applied Psychology*, June 1990, pp. 362–6; J. T. Ettling and A. G. Jago, 'Participation under Conditions of Conflict: More on the Validity of the Vroom Yetton Model', *Journal of Management Studies*, January 1988, pp. 73–83; C. R. Leana, 'Power Relinquishment versus Power Sharing: Theoretical Clarification and Empirical Comparison of Delegation and Participation', *Journal of Applied Psychology*, May 1987, pp. 228–33; and R. H. G. Field, 'A Test of the Vroom Yetton Normative Model of Leadership', *Journal of Applied Psychology*, October 1982, pp. 523–32.

20 SmartPulse, 'How Willing Are You to Step Outside Your Leadership Style "Comfort Zone" and Try New Techniques?', **www.smartbrief.com/leadership**, 10 December 2013.

21 R. J. House, 'Path–Goal Theory of Leadership: Lessons, Legacy and a Reformulated Theory', *Leadership Quarterly*, Fall 1996, pp. 323–52; R. J. House and T. R. Mitchell, 'Path–Goal Theory of Leadership', *Journal of Contemporary Business,* Autumn 1974, p. 86; and R. J. House, 'A Path–Goal Theory of Leader Effectiveness', *Administrative Science Quarterly*, September 1971, pp. 321–38.

22 A. Sagie and M. Koslowsky, 'Organizational Attitudes and Behaviors as a Function of Participation in Strategic and Tactical Change Decisions: An Application of Path–Goal Theory', *Journal of Organizational Behavior*, January 1994, pp. 37–47; and J. C. Wofford and L. Z. Liska, 'Path–Goal Theories of Leadership: A Meta-Analysis', *Journal of Management*, Winter 1993, pp. 857–76.

23 L. Ma and Q. Qu, 'Differentiation in Leader–Member Exchange: A Hierarchical Linear Modeling Approach', *Leadership Quarterly*, October 2010, pp. 733–44; C. P. Schriesheim, S. L. Castro, X. Zhou and F. J. Yamarinno, 'The Folly of Theorizing "A" but Testing "B": A Selective Level-of-Analysis Review of the Field and a Detailed Leader–Member Exchange Illustration', *Leadership Quarterly*, Winter 2001, pp. 515–51; R. C. Liden, R. T. Sparrowe and S. J. Wayne, 'Leader–Member Exchange Theory: The Past and Potential for the Future', in G. R. Ferris (ed.), *Research in Personnel and Human Resource Management*, vol. 15 (Greenwich, CT: JAI Press, 1997), pp. 47–119; G. B. Graen and M. Uhl-Bien, 'Relationship-Based Approach to Leadership: Development of Leader–Member Exchange (LMX) Theory of Leadership over 25 Years: Applying a Multi-Domain Perspective', *Leadership Quarterly*, Summer 1995, pp. 219–47; and R. M. Dienesch and R. C. Liden, 'Leader–Member Exchange Model of Leadership: A Critique and Further Development', *Academy of Management Review*, July 1986, pp. 618–34.

24 J. B. Wu, A. S. Tsui and A. J. Kinicki, 'Consequences of Differentiated Leadership in Groups', *Academy of Management Journal*, February 2010, pp. 90–106; S. S. Masterson, K. Lewis and B. M. Goldman, 'Integrating Justice and Social Exchange: The

Differing Effects of Fair Procedures and Treatment on Work Relationships', *Academy of Management Journal*, August 2000, pp. 738–48; S. J. Wayne, L. J. Shore, W. H. Bommer and L. E. Tetrick, 'The Role of Fair Treatment and Rewards in Perceptions of Organizational Support and Leader–Member Exchange', *Journal of Applied Psychology*, June 2002, pp. 590–8; R. C. Liden, S. J. Wayne and D. Stilwell, 'A Longitudinal Study of the Early Development of Leader–Member Exchanges', *Journal of Applied Psychology*, August 1993, pp. 662–74; and R. C. Liden and G. Graen, 'Generalizability of the Vertical Dyad Linkage Model of Leadership', *Academy of Management Journal*, September 1980, pp. 451–65.

25 V. L. Goodwin, W. M. Bowler and J. L. Whittington, 'A Social Network Perspective on LMX Relationships: Accounting for the Instrumental Value of Leader and Follower Networks', *Journal of Management*, August 2009, pp. 954–80; R. Vecchio and D. M. Brazil, 'Leadership and Sex-Similarity: A Comparison in a Military Setting', *Personnel Psychology*, vol. 60 (2007), pp. 303–35; M. Uhl-Bien, 'Relationship Development as a Key Ingredient for Leadership Development', in S. E. Murphy and R. E. Riggio (eds), *Future of Leadership Development* (Mahwah, NJ: Lawrence Erlbaum, 2003), pp. 129–47; R. C. Liden, S. J. Wayne and D. Stilwell, 'A Longitudinal Study of the Early Development of Leader–Member Exchanges', *Journal of Applied Psychology*, August 1993, pp. 662–74; and D. Duchon, S. G. Green and T. D. Taber, 'Vertical Dyad Linkage: A Longitudinal Assessment of Antecedents, Measures and Consequences', *Journal of Applied Psychology*, February 1986, pp. 56–60.

26 See, for example, F. O. Walumbwa, D. M. Mayer, P. Wang, H. Wang, K. Workman and A. L. Christensen, 'Linking Ethical Leadership to Employee Performance: The Roles of Leader–Member Exchange Theory, Self-Efficacy and Organizational Identification', *Organizational Behavior & Human Decision Processes*, July 2011, pp. 204–13; K. J. Harris, A. R. Wheeler and K. M. Kacmar, 'The Mediating Role of Organizational Embeddedness in the LMX–Outcomes Relationship', *Leadership Quarterly*, April 2011, pp. 271–81; W. M. Bowler, J. R. B. Halbesleben and J. R. B. Paul, 'If You're Close with the Leader, You Must Be a Brownnose: The Role of Leader–Member Relationships in Follower, Leader and Coworker Attributions of Organizational Citizenship Behavior Motives', *Human Resource Management Review*, December 2010, pp. 309–16; G. Sears and C. Holmvall, 'The Joint Influence of Supervisor and Subordinate Emotional Intelligence on Leader–Member Exchange', *Journal of Business & Psychology*, December 2010, pp. 593–605; V. Venkataramani, S. G. Green and D. J. Schleicher, 'Well-Connected Leaders' Social Network Ties on LMX and Members' Work Attitudes', *Journal of Applied Psychology*, November 2010, pp. 1071–84; Z. Chen, W. Lam and J. A. Zhong, 'Leader–Member Exchange and Member Performance: A New Look at Individual-Level Negative Feedback-Seeking Behavior and Team-Level Empowerment Culture', *Journal of Applied Psychology*, January 2007, pp. 202–12; R. Ilies, J. D. Nahrgang and F. P. Morgeson, 'Leader–Member Exchange and Citizenship Behaviors: A Meta-Analysis', *Journal of Applied Psychology*, January 2007, pp. 269–77; and C. R. Gerstner and D. V. Day, 'Meta-analytic Review of Leader–Member Exchange Theory:

Correlates and Construct Issues', *Journal of Applied Psychology*, December 1997, pp. 827–44.

27 B. M. Bass and R. E. Riggio, *Transformational Leadership*, 2nd edn (Mahwah, NJ: Lawrence Erlbaum Associates, Inc., 2006), p. 3.

28 J. Seltzer and B. M. Bass, 'Transformational Leadership: Beyond Initiation and Consideration', *Journal of Management*, December 1990, pp. 693–703; and B. M. Bass, 'Leadership: Good, Better, Best', *Organizational Dynamics*, Winter 1985, pp. 26–40.

29 B. J. Avolio and B. M. Bass, 'Transformational Leadership, Charisma and Beyond', Working paper, School of Management, State University of New York, Binghamton, 1985, p. 14.

30 R. S. Rubin, D. C. Munz and W. H. Bommer, 'Leading from Within: The Effects of Emotion Recognition and Personality on Transformational Leadership Behavior', *Academy of Management Journal*, October 2005, pp. 845–58; T. A. Judge and J. E. Bono, 'Five-Factor Model of Personality and Transformational Leadership', *Journal of Applied Psychology*, October 2000, pp. 751–65; B. M. Bass and B. J. Avolio, 'Developing Transformational Leadership: 1992 and Beyond', *Journal of European Industrial Training*, January 1990, p. 23; and J. J. Hater and B. M. Bass, 'Supervisors' Evaluation and Subordinates' Perceptions of Transformational and Transactional Leadership', *Journal of Applied Psychology*, November 1988, pp. 695–702.

31 M. Tims, A. B. Bakker and D. Xanthopoulou, 'Do Transformational Leaders Enhance Their Followers' Daily Work Engagement?', *Leadership Quarterly*, February 2011, pp. 121–31; X.-H. (Frank) Wang and J. M. Howell, 'Exploring the Dual-Level

Effects of Transformational Leadership on Followers', *Journal of Applied Psychology*, November 2010, pp. 1134–44; A. E. Colbert, A. L. Kristof-Brown, B. H. Bradley and M. R. Barrick, 'CEO Transformational Leadership: The Role of Goal Importance Congruence in Top Management Teams', *Academy of Management Journal*, February 2008, pp. 81–96; R. F. Piccolo and J. A. Colquitt, 'Transformational Leadership and Job Behaviors: The Mediating Role of Core Job Characteristics', *Academy of Management Journal*, April 2006, pp. 327–40; O. Epitropaki and R. Martin, 'From Ideal to Real: A Longitudinal Study of the Role of Implicit Leadership Theories on Leader–Member Exchanges and Employee Outcomes', *Journal of Applied Psychology*, July 2005, pp. 659–76; J. E. Bono and T. A. Judge, 'Self-Concordance at Work: Toward Understanding the Motivational Effects of Transformational Leaders', *Academy of Management Journal*, October 2003, pp. 554–71; T. Dvir, D. Eden, B. J. Avolio and B. Shamir, 'Impact of Transformational Leadership on Follower Development and Performance: A Field Experiment', *Academy of Management Journal*, August 2002, pp. 735–44; N. Sivasubramaniam, W. D. Murry, B. J. Avolio and D. I. Jung, 'A Longitudinal Model of the Effects of Team Leadership and Group Potency on Group Performance', *Group and Organization Management*, March 2002, pp. 66–96; J. M. Howell and B. J. Avolio, 'Transformational Leadership, Transactional Leadership, Locus of Control and Support for Innovation: Key Predictors of Consolidated-Business-Unit Performance', *Journal of Applied Psychology*, December 1993, pp. 891–911; R. T. Keller, 'Transformational Leadership and the Performance of Research and Development Project Groups', *Journal of Management*, September 1992, pp. 489–

501; and B. M. Bass and B. J. Avolio, 'Developing Transformational Leadership: 1992 and Beyond', *Journal of European Industrial Training*, January 1990, p. 23.

32 M. Thompson and B. Tracy, 'Building a Great Organization', *Leader to Leader*, Fall 2010, pp. 45–9; and F. Vogelstein, 'Mighty Amazon', *Fortune*, 26 May 2003, pp. 60–74.

33 J. M. Crant and T. S. Bateman, 'Charismatic Leadership Viewed from Above: The Impact of Proactive Personality', *Journal of Organizational Behavior*, February 2000, pp. 63–75; G. Yukl and J. M. Howell, 'Organizational and Contextual Influences on the Emergence and Effectiveness of Charismatic Leadership', *Leadership Quarterly*, Summer 1999, pp. 257–83; and J. A. Conger and R. N. Kanungo, 'Behavioral Dimensions of Charismatic Leadership', in J. A. Conger, R. N. Kanungo and Associates, *Charismatic Leadership* (San Francisco: Jossey-Bass, 1988), pp. 78–97.

34 J. A. Conger and R. N. Kanungo, *Charismatic Leadership in Organizations* (Thousand Oaks, CA: Sage, 1998).

35 F. Walter and H. Bruch, 'An Affective Events Model of Charismatic Leadership Behavior: A Review, Theoretical Investigation and Research Agenda', *Journal of Management*, December 2009, pp. 1428–52; K. S. Groves, 'Linking Leader Skills, Follower Attitudes and Contextual Variables via an Integrated Model of Charismatic Leadership', *Journal of Management*, April 2005, pp. 255–77; J. J. Sosik, 'The Role of Personal Values in the Charismatic Leadership of Corporate Managers: A Model and Preliminary Field Study', *Leadership Quarterly*, April 2005, pp. 221–44; A. H. B. deHoogh, D. N. den Hartog, P. L. Koopman, H. Thierry, P. T. van den Berg, J. G.

van der Weide and C. P. M. Wilderom, ‘Leader Motives, Charismatic Leadership and Subordinates’ Work Attitudes in the Profit and Voluntary Sector’, *Leadership Quarterly*, February 2005, pp. 17–38; J. M. Howell and B. Shamir, ‘The Role of Followers in the Charismatic Leadership Process: Relationships and their Consequences’, *Academy of Management Review*, January 2005, pp. 96–112; J. Paul, D. L. Costley, J. P. Howell, P. W. Dorfman and D. Trafimow, ‘The Effects of Charismatic Leadership on Followers’ Self-Concept Accessibility’, *Journal of Applied Social Psychology*, September 2001, pp. 1821–44; J. A. Conger, R. N. Kanungo and S. T. Menon, ‘Charismatic Leadership and Follower Effects’, *Journal of Organizational Behavior*, vol. 21 (2000), pp. 747–67; R. W. Rowden, ‘The Relationship between Charismatic Leadership Behaviors and Organizational Commitment’, *Leadership & Organization Development Journal*, January 2000, pp. 30–5; G. P. Shea and C. M. Howell, ‘Charismatic Leadership and Task Feedback: A Laboratory Study of their Effects on Self-Efficacy’, *Leadership Quarterly*, Fall 1999, pp. 375–96; S. A. Kirkpatrick and E. A. Locke, ‘Direct and Indirect Effects of Three Core Charismatic Leadership Components on Performance and Attitudes’, *Journal of Applied Psychology*, February 1996, pp. 36–51; D. A. Waldman, B. M. Bass and F. J. Yammarino, ‘Adding to Contingent-Reward Behavior: The Augmenting Effect of Charismatic Leadership’, *Group & Organization Studies*, December 1990, pp. 381–94; and R. J. House, J. Woycke and E. M. Fodor, ‘Charismatic and Noncharismatic Leaders: Differences in Behavior and Effectiveness’, in J. A. Conger, R. N. Kanungo and Associates, *Charismatic Leadership* (San Francisco: Jossey-Bass, 1988), pp. 103–4.

36 B. R. Agle, N J. Nagarajan, J. A. Sonnenfeld and D. Srinivasan, 'Does CEO Charisma Matter? An Empirical Analysis of the Relationships among Organizational Performance, Environmental Uncertainty and Top Management Team Perceptions of CEO Charisma', *Academy of Management Journal*, February 2006, pp. 161–74.

37 R. Birchfield, 'Creating Charismatic Leaders', *Management*, June 2000, pp. 30–1; S. Caudron, 'Growing Charisma', *Industry Week*, 4 May 1998, pp. 54–5; and J. A. Conger and R. N. Kanungo, 'Training Charismatic Leadership: A Risky and Critical Task', in J. A. Conger, R. N. Kanungo and Associates, *Charismatic Leadership* (San Francisco: Jossey-Bass, 1988), pp. 309–23.

38 J. G. Hunt, K. B. Boal and G. E. Dodge, 'The Effects of Visionary and Crisis-Responsive Charisma on Followers: An Experimental Examination', *Leadership Quarterly*, Fall 1999, pp. 423–48; R. J. House and R. N. Aditya, 'The Social Scientific Study of Leadership: Quo Vadis?', *Journal of Management*, vol. 23, no. 3 (1997), pp. 316–23; and R. J. House, *A 1976 Theory of Charismatic Leadership* (Ontario: Toronto University, 1976).

39 This definition is based on M. Sashkin, 'The Visionary Leader', in J. A. Conger, R. N. Kanungo and Associates, *Charismatic Leadership* (San Francisco: Jossey-Bass, 1988), pp. 124–5; B. Nanus, *Visionary Leadership* (New York: Free Press, 1992), p. 8; N. H. Snyder and M. Graves, 'Leadership and Vision', *Business Horizons*, January–February 1994, p. 1; and J. R. Lucas, 'Anatomy of a Vision Statement', *Management Review*, February 1998, pp. 22–6.

40 B. Nanus, *Visionary Leadership* (New York: Free Press, 1992), p. 8.

41 M. A. Ferdig, 'Sustainability Leadership Relational Model', **www.sustainabilityleadershipinstitute.org**, accessed 30 January 2013.

42 B. Court, 'Yvon Chouinard, the Founder of Patagonia, Is on a Mission to Save the Planet', *Men's Health*, 25 October 2018.

43 R. S. Wellins, W. C. Byham and G. R. Dixon, *Inside Teams* (San Francisco: Jossey-Bass, 1994), p. 318.

44 N. Steckler and N. Fondas, 'Building Team Leader Effectiveness: A Diagnostic Tool', *Organizational Dynamics*, Winter 1995, p. 21.

45 S. Caminiti, 'What Team Leaders Need to Know', *Fortune*, 20 February 1995, p. 93.

46 S. Caminiti, 'What Team Leaders Need to Know', *Fortune*, 20 February 1995, p. 100.

47 SmartPulse, 'Which of these Characteristics is the Most Dangerous Leadership Trait?', **www.smartbrief.com/leadership**, 1 July 2014.

48 D. S. DeRue, C. M. Barnes and F. M. Morgeson, 'Understanding the Motivational Contingencies of Team Leadership', *Small Group Research*, October 2010, pp. 621–51; B. Meredith, 'Leader Characteristics: Is there a Shift in Requirements?', *Leadership Excellence*, September 2010, p. 19; B. Neal, 'Heroes and Sidekicks: Ensuring Proper Followership', *T&D*, September 2010, pp. 76–7; R. D. Ramsey, 'Preparing to Be Tomorrow's Leader Today', *Supervision*, January 2010, p. 79; N. Steckler and N.

Fondas, ‘Building Team Leader Effectiveness: A Diagnostic Tool’, *Organizational Dynamics*, Winter 1995, p. 20.

49 J. Fabre, ‘The Importance of Empowering Front-Line Staff’, *Supervision*, December 2010, pp. 6–7; S. Raub and C. Robert, ‘Differential Effects of Empowering Leadership on In-Role and Extra-Role Employee Behaviors: Exploring the Role of Psychological Empowerment and Power Values’, *Human Relations*, November 2010, pp. 1743–70; N. D. Cakar and A. Erturk, ‘Comparing Innovation Capability of Small and Medium-Sized Enterprises: Examining the Effects of Organizational Culture and Empowerment’, *Journal of Small Business Management*, July 2010, pp. 325–59; A. Srivastava, K. M. Bartol and E. A. Locke, ‘Empowering Leadership in Management Teams: Effects on Knowledge Sharing, Efficacy and Performance’, *Academy of Management Journal*, December 2006, pp. 1239–51; P. K. Mills and G. R. Ungson, ‘Reassessing the Limits of Structural Empowerment: Organizational Constitution and Trust as Controls’, *Academy of Management Review*, January 2003, pp. 143–53; W. A. Rudolph and M. Sashkin, ‘Can Organizational Empowerment Work in Multinational Settings?’, *Academy of Management Executive*, February 2002, pp. 102–15; C. Gomez and B. Rosen, ‘The Leader–Member Link between Managerial Trust and Employee Empowerment’, *Group & Organization Management*, March 2001, pp. 53–69; C. Robert and T. M. Probst, ‘Empowerment and Continuous Improvement in the United States, Mexico, Poland and India’, *Journal of Applied Psychology*, October 2000, pp. 643–58; R. C. Herrenkohl, G. T. Judson and J. A. Heffner, ‘Defining and Measuring Employee Empowerment’, *Journal of Applied Behavioral Science*, September 1999, p. 373; R. C. Ford and M. D. Fottler,

'Empowerment: A Matter of Degree', *Academy of Management Executive*, August 1995, pp. 21–31; and W. A. Rudolph, 'Navigating the Journey to Empowerment', *Organizational Dynamics*, Spring 1995, pp. 19–32.

50 F. W. Swierczek, 'Leadership and Culture: Comparing Asian Managers', *Leadership & Organization Development Journal*, December 1991, pp. 3–10.

51 I. Wanasika, J. P. Howell, R. Littrell and P. Dorfman, 'Managerial Leadership and Culture in Sub-Saharan Africa', *Journal of World Business*, April 2011, pp. 234–41.

52 R. J. House, 'Leadership in the Twenty-First Century', in A. Howard (ed.), *The Changing Nature of Work* (San Francisco: Jossey-Bass, 1995), p. 443; M. F. Peterson and J. G. Hunt, 'International Perspectives on International Leadership', *Leadership Quarterly*, Fall 1997, pp. 203–31; and J. R. Schermerhorn and M. H. Bond, 'Cross-Cultural Leadership in Collectivism and High Power Distance Settings', *Leadership & Organization Development Journal*, vol. 18, no. 4/5 (1997), pp. 187–93.

53 I. Wanasika, J. P. Howell, R. Littrell and P. Dorfman, 'Managerial Leadership and Culture in Sub-Saharan Africa', *Journal of World Business*, April 2011, pp. 234–41; R. J. House, P. J. Hanges, S. A. Ruiz-Quintanilla, P. W. Dorfman and Associates, 'Culture Specific and Cross-Culturally Generalizable Implicit Leadership Theories: Are the Attributes of Charismatic/Transformational Leadership Universally Endorsed?', *Leadership Quarterly*, Summer 1999, pp. 219–56; and D. E. Carl and M. Javidan, 'Universality of Charismatic Leadership: A Multi-Nation

Study', paper presented at the National Academy of Management Conference, Washington, DC, August 2001.

54 D. E. Carl and M. Javidan, 'Universality of Charismatic Leadership: A Multi-Nation Study', paper presented at the National Academy of Management Conference, Washington, DC, August 2001, p. 29.

55 This section is based on D. Goleman, R. E. Boyatzis and A. McKee, *Primal Leadership: Realizing the Power of Emotional Intelligence* (Boston: Harvard Business School Press, 2002); D. R. Caruso, J. D. Mayer and P. Salovey, 'Emotional Intelligence and Emotional Leadership', in R. E. Riggio, S. E. Murphy and F. J. Pirozzolo (eds), *Multiple Intelligences and Leadership* (Mahwah, NJ: Lawrence Erlbaum, 2002), pp. 55–74; J. M. George, 'Emotions and Leadership: The Role of Emotional Intelligence', *Human Relations*, August 2000, pp. 1027–55; D. Goleman, 'What Makes a Leader?', *Harvard Business Review*, November–December 1998, pp. 93–102; and D. Goleman, *Working with Emotional Intelligence* (New York: Bantam, 1998).

56 F. Walter, M. S. Cole and R. H. Humphrey, 'Emotional Intelligence: Sine Qua Non of Leadership or Folderol?', *Academy of Management Perspectives*, February 2011, pp. 45–59.

57 See F. Walter, M. S. Cole and R. H. Humphrey, 'Emotional Intelligence: Sine Qua Non of Leadership or Folderol?', *Academy of Management Perspectives*, February 2011, pp. 45–59; L. A. Zampetakis and V. Moustakis, 'Managers' Trait Emotional Intelligence and Group Outcomes: The Case of Group Job Satisfaction', *Small Group Research*, February 2011, pp. 77–102; H.-W. Vivian Tang, M.-S. Yin and D. B. Nelson, 'The Relationship between Emotional

Intelligence and Leadership Practices', *Journal of Managerial Psychology*, vol. 25, no. 8 (2010), pp. 899–926; P. K. Chopra and G. K. Kanji, 'Emotional Intelligence: A Catalyst for Inspirational Leadership and Management Excellence', *Total Quality Management & Business Excellence*, October 2010, pp. 971–1004; R. Boyatzis and A. McKee, 'Intentional Change', *Journal of Organizational Excellence*, Summer 2006, pp. 49–60; and R. Kerr; J. Garvin, N. Heaton and E. Boyle, 'Emotional Intelligence and Leadership Effectiveness', *Leadership and Organizational Development Journal*, April 2006, pp. 265–79.

58 S. Simsarian, 'Leadership and Trust Facilitating Cross-Functional Team Success', *Journal of Management Development*, March–April 2002, pp. 201–15.

59 J. M. Kouzes and B. Z. Posner, *Credibility: How Leaders Gain and Lose It, and Why People Demand It* (San Francisco: Jossey-Bass, 1993), p. 14.

60 Based on F. D. Schoorman, R. C. Mayer and J. H. Davis, 'An Integrative Model of Organizational Trust: Past, Present and Future', *Academy of Management Review*, April 2007, pp. 344–54; G. M. Spreitzer and A. K. Mishra, 'Giving up Control without Losing Control', *Group & Organization Management*, June 1999, pp. 155–87; R. C. Mayer, J. H. Davis and F. D. Schoorman, 'An Integrative Model of Organizational Trust', *Academy of Management Review*, July 1995, p. 712; and L. T. Hosmer, 'Trust: The Connecting Link between Organizational Theory and Philosophical Ethics', *Academy of Management Review*, April 1995, p. 393.

61 P. L. Schindler and C. C. Thomas, 'The Structure of Interpersonal Trust in the Workplace', *Psychological Reports*,

October 1993, pp. 563–73.

62 H. H. Tan and C. S. F. Tan, 'Toward the Differentiation of Trust in Supervisor and Trust in Organization', *Genetic, Social and General Psychology Monographs*, May 2000, pp. 241–60.

63 M. Clarke, 'Jacinda Ardern's Leadership under Question in New Zealand Despite Being Lauded Abroad', *ABC News*, 26 February 2020; Serious Fraud Office, 2020, 'SFO Commences Investigation in Relation to NZ First Foundation', 18 February 2020, **https://www.sfo.govt.nz/sfo-commences-investigation-in-relation-to-nz-first-foundation**, accessed 20 July 2020.

64 Managing for Diversity and Inclusion box based on J. O'Leary, G. Russell and J Tilly, *Building Inclusion: An Evidence-Based Model of Inclusive Leadership*, Diversity Council of Australia, 2015, https://www.dca.org.au, accessed 24 October 2017.

65 J. H. Cho and E. J. Ringquist, 'Managerial Trustworthiness and Organizational Outcomes', *Journal of Public Administration Research and Theory*, January 2011, pp. 53–86; R. C. Mayer and M. B. Gavin, 'Trust in Management and Performance: Who Minds the Shop While the Employees Watch the Boss?', *Academy of Management Journal*, October 2005, pp. 874–88; and K. T. Dirks and D. L. Ferrin, 'Trust in Leadership: Meta-Analytic Findings and Implications for Research and Practice', *Journal of Applied Psychology*, August 2002, pp. 611–28.

66 R. Zemke, 'The Confidence Crisis', *Training*, June 2004, pp. 22–30; J. A. Byrne, 'Restoring Trust in Corporate America', *BusinessWeek*, 24 June 2002, pp. 30–5; S. Armour, 'Employees' New Motto: Trust No One', *USA Today*, 5 February 2002, p. 1B; J. Scott, 'Once Bitten, Twice Shy: A World of Eroding Trust', *New York*

Times, 21 April 2002, p. WK5; and J. Brockner, P. A. Siegel, J. P. Daly, T. Tyler and C. Martin, 'When Trust Matters: The Moderating Effect of Outcome Favorability', *Administrative Science Quarterly*, September 1997, p. 558.

67 S. Kerr and J. M. Jermier, 'Substitutes for Leadership: Their Meaning and Measurement', *Organizational Behavior and Human Performance*, December 1978, pp. 375–403; J. P. Howell, P. W. Dorfman and S. Kerr, 'Leadership and Substitutes for Leadership', *Journal of Applied Behavioral Science*, vol. 22, no. 1 (1986), pp. 29–46; J. P. Howell, D. E. Bowen, P. W. Dorfman, S. Kerr and P. M. Podsakoff, 'Substitutes for Leadership: Effective Alternatives to Ineffective Leadership', *Organizational Dynamics*, Summer 1990, pp. 21–38; and P. M. Podsakoff, B. P. Niehoff, S. B. MacKenzie and M. L. Williams, 'Do Substitutes for Leadership Really Substitute for Leadership? An Empirical Examination of Kerr and Jermier's Situational Leadership Model', *Organizational Behavior and Human Decision Processes*, February 1993, pp. 1–44.

68 S. Clench, 'Coronavirus: Clarity is the Quality that Makes Jacinda Ardern so Effective in a Crisis', *News.com.au*, 27 March 2020; 'New Zealand PM Jacinda Ardern Says She Will Never Say Christchurch Shooter's Name', *ABC News*, 19 March 2019; S. Wilson, 'Jacinda Ardern Has Been Giving a Masterclass in Crisis Leadership', *ABC News*, 6 April 2020; 'Prime Minister: COVID-19 Alert Level Increased. RT Hon. Jacinda Ardern', *Beehive.com.nz,* 23 March 2020, accessed 10 July 2020; M. Gessen, 'Jacinda Ardern Has Rewritten the Script for How a Nation Grieves After a Terrorist Attack', *The New Yorker*, 22 March 2019; 'Christchurch Mosque Attack Death Toll Rises to 51 after Man Dies in Hospital', *ABC News*,

3 May 2019; J. MacManus, ‘World’s Tallest Building Lit Up with Image of Jacinda Ardern’, *Sydney Morning Herald*, 23 March 2019; Reuters, ‘New Zealand White Island Eruption: Death Toll from Volcano Disaster Rises’, *The Guardian*, 13 January 2020; M. G. Baker, A. Kvalsvig, A. J. Verrall, L. Telfar-Barnard and N. Wilson, ‘New Zealand’s Elimination Strategy for the COVID-19 Pandemic and What is Required to Make it Work’, *New Zealand Medical Journal*, 3 April 2020; T. Manch, ‘New Zealand Health Minister Demoted after Breaking Lockdown for Beach Trip’, *Sydney Morning Herald*, 7 April 2020; ‘New Zealand PM Jacinda Ardern’s Baby Premieres among World Leaders’, *BBC News*, 25 September 2018; ‘A Lawmaker Brought His Baby to Parliament. New Zealand’s Speaker Rocked and Fed the Infant during Debate’, *The Lily*, 23 August 2019; and E. A. Roy and C. Graham-McLay, ‘Jacinda Ardern to Govern New Zealand for Second Term after Historic Victory’, *The Guardian*, 18 October 2020.

Chapter 14 Managing Organisational and Interpersonal Communication

Fact or fiction?

Managers should try to stifle the grapevine.

Fiction

The grapevine is a well-known source for organisational gossip and news. For the inexperienced manager, it's seen as a destructive element within an organisation's communication network. But the grapevine isn't going away. It's as natural to an organisation as water is to an ocean. ***Astute managers acknowledge the existence of the grapevine and use it in beneficial ways***. In this chapter, you'll see how managers can use the grapevine to identify issues that employees consider important. They use it as both a filter and

feedback mechanism by highlighting issues that employees consider relevant.

Managers need to understand both the importance and the success factors for effective communication – *all* forms of communication, even the grapevine. Communication takes place every day in every organisation. Most of that communication tends to be work-related. But as we'll see, sometimes communication can cause some unintended consequences. And as the opening case study illustrates, communication breakdowns can cause a range of different problems when people don't get the information they need, or don't understand what it means, or don't use it the way they are supposed to. So, in this chapter, we're going to look at basic concepts of interpersonal communication. We'll explain the communication process, methods of communicating, barriers to effective communication and ways to overcome those barriers. In addition, we'll look at communication issues that today's managers face.

Learning outcomes

14.1 Describe what managers need to know about communicating effectively.
14.2 Explain how technology affects managerial communication.
14.3 Discuss contemporary issues in communication.

Unheard and undermined

When communication is effective, it helps organisations run like well-oiled machines.

ndoeljindoel/Shutterstock.com

When Gary Smith founded SNY Pty Ltd in 1980, he had one focus: to develop and sell oil and lubricant products that would help manufacturing organisations in heavy industries produce their products more efficiently. For many years, SNY was successful at that and its products were in high demand because they worked well and customers who used them made more money! When Smith retired two years ago, SNY was sold to a large multinational oil and lubricant business.
A new general manager, Juliette Livingstone, was appointed to run SNY, and she relocated from the multinational's Hong Kong office to Australia. Juliette had extensive experiences across the organisation, having worked in everything from raw material extraction to office-based managerial roles. She restructured SNY so that it operated more like the company's other branches around the world. Currently, the SNY

workforce is divided into three key groups: management, sales and after-sales service, and manufacturing. But while reporting lines and processes were simplified, communication became more complex and less effective.

One of the biggest problems was that quality control processes became weakened by a lack of information and understanding. Staff changes in senior management roles led to the quality control engineers in manufacturing being supervised by people who had little idea of their actual role or the necessary technical skills; some didn't even know which products the engineers oversaw on the factory floor. Poor communication between manufacturing, sales and management began compromising day-to-day decision making by people in the manufacturing and sales groups. This caused costly mistakes when SNY products didn't perform due to quality issues, resulting in customer complaints and SNY having to reimburse the customer's manufacturing costs.

Part of the problem was that the engineers were responsible for quality assurance, but other groups in the organisation didn't want or heed the information the engineers provided in the quality assurance process. When quality tests failed and the engineers halted production to fix the problem, workers ignored instructions to stop the manufacturing process. One particular supervisor also became known for shipping products out to customers without quality control having time to test and approve the quality – particularly at the end of the month (when bonuses for completing orders are calculated).

When the engineers responsible for quality control outlined their case to senior management, they felt unheard and disregarded. Part of the problem is that most of the engineers had migrated to Australia from overseas, so they often lacked the language skills to present a strong case to the highly culturally and linguistically diverse group of senior managers or to sales staff.

Meanwhile, the sales team began putting additional pressure on the engineers to explain why customers were complaining that products weren't meeting expectations. The sales team were kept separate from the manufacturing group and manufacturing process because the company didn't want them to learn the 'secret oil and lubricant recipes' in case they changed employers. This made it even harder for the engineers to explain what was occurring. Poor communication and misunderstanding quickly led to confusion, frustration and resentment.

How do managers communicate effectively?

Learning outcome 14.1 Describe what managers need to know about communicating effectively.

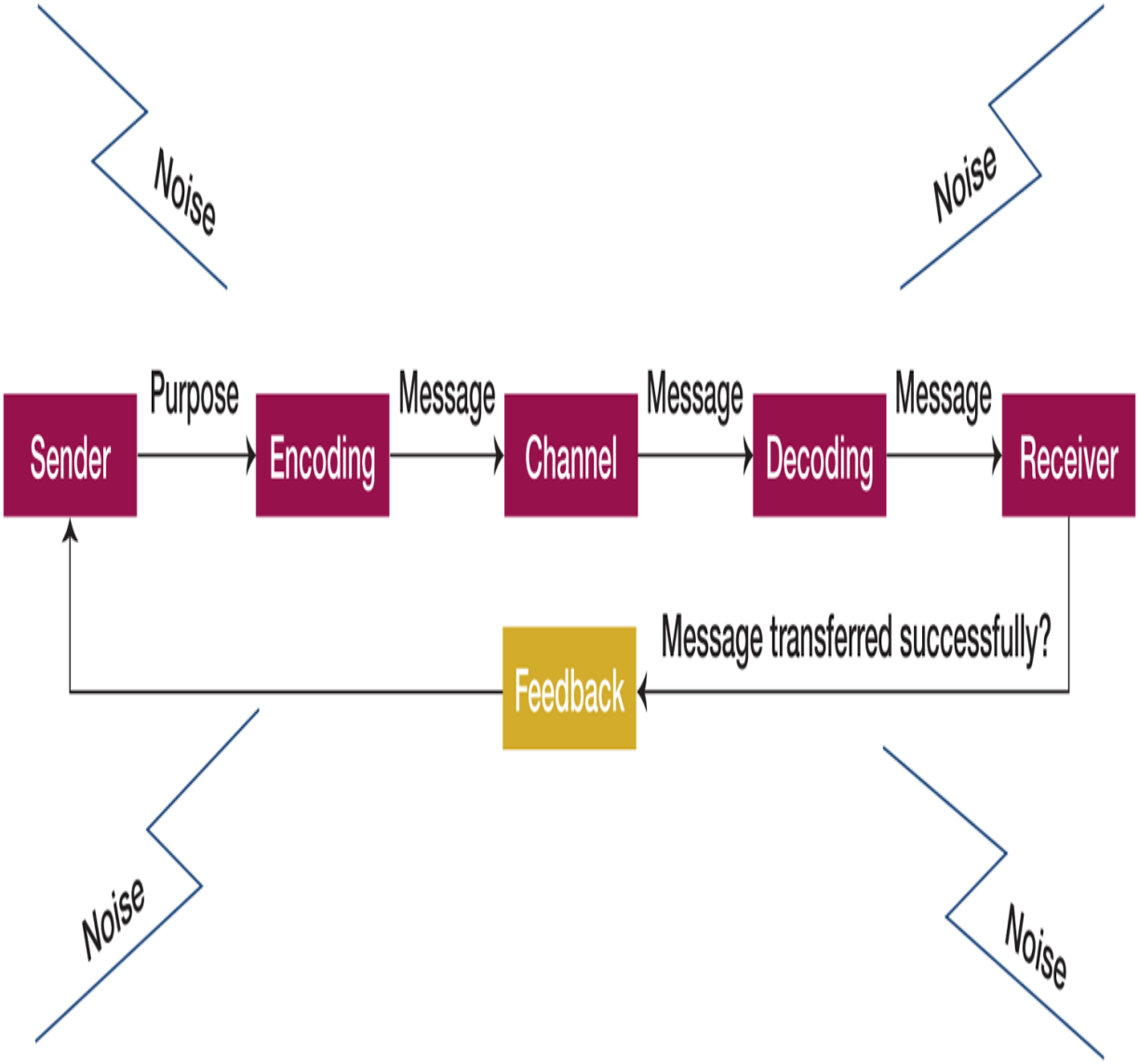
> Everything a manager does involves **COMMUNICATING**!

The importance of effective communication for managers cannot be overemphasised. The best idea, the most creative suggestion, or the finest plan cannot take form without communication. Managers, therefore, need effective communication skills.

How does the communication process work?

Communication is a transfer of understanding and meaning from one person to another.[1] **Figure 14.1** depicts the **communication process**, which we can think of as a process or a flow. It is triggered by the communicator, or sender, realising there is a need to communicate with someone. That need creates a purpose, which is expressed as a message to be conveyed. For example, Stuart is on his way to meet Suzie for a 10 am meeting and has been delayed. He realises he needs to communicate to Suzie that he'll be late. The purpose of his message is to let her know that he has been delayed and now expects to meet her 30 minutes later than they had agreed. To communicate this to Suzie, Stuart (the sender) needs to convert his message into symbolic form and send it through a medium that will reach Suzie. For example, he types 'been delayed, c u in 30' in a text message (encoding) and sends the text message (the channel) to Suzie's mobile phone. Suzie (the receiver) receives the text message and translates (decodes) it to mean that Stuart will meet her at 10.30 am. In this example, Suzie has decoded Stuart's message to have the meaning that Stuart intended to convey to her, so the communication process was effective. An **effective communication** process results in the sender gaining the understanding that the sender intended.

Figure 14.1 The communication process



communication

A transfer of understanding and meaning from one person to another

communication process

The process by which understanding and meaning are transferred from one person to another

effective communication

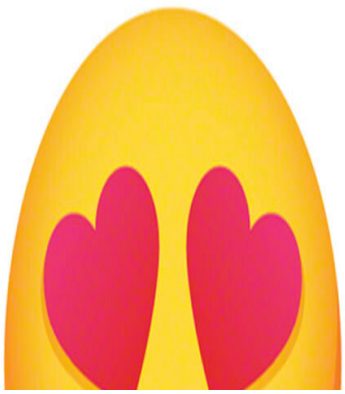
A communication process in which the sender gains the understanding that the sender intended

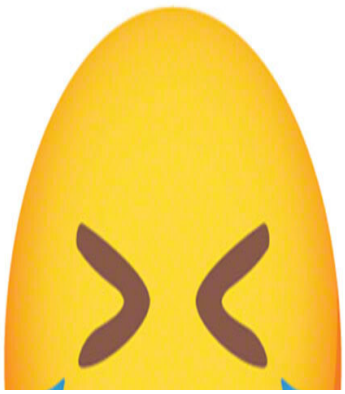
Many factors influence the communication process. Communication begins when a sender creates a message by **encoding** a thought. Four conditions affect the encoded message: skill, attitudes, knowledge and the social cultural system. Our message in our communication to you in this book depends on our writing *skills*; if we don't have the requisite writing skills, our message won't reach you in the form desired. Keep in mind that a person's total communicative success includes speaking, reading, listening and reasoning skills as well. As we discussed in the chapter on understanding individual behaviour, our attitudes influence our behaviour. We hold predisposed ideas on numerous topics, and our communications are affected by these *attitudes*. Furthermore, we're restricted in our communicative

activity by the extent of our *knowledge* of the particular topic. We can't communicate what we don't know, and should our knowledge be too extensive, it's possible that our receiver won't understand our message. Clearly, the amount of knowledge the source holds about their subject will affect the message they seek to transfer. And, finally, just as attitudes influence our behaviour, so does our *position in the social cultural system* in which we exist. Your beliefs and values, all part of your culture, act to influence you as a communicative source. For example, your cultural norms might dictate that you communicate more respectfully to older people than to people your own age. In that case, a message to an older person might use a different form of address or different terms, or contain more detail, than a message to a peer.

encoding

Converting a message into symbolic form





When people communicate face-to-face, they use gestures to add emphasis, richness and additional meaning to the content of their communication. In digital communication, emojis now serve many of the same functions.[2] Some gestures and emojis, such as the thumbs up, okay sign and fingers-crossed-for-good-luck communicate full meaning all by themselves. Others, such as the ‘smiling face with

heart-shaped eyes' emoji and the 'face with tears of joy' emoji, provide additional context for interpreting the sender's meaning by indicating the intention behind their message.

Lemberg Vector studio/stas11/Shutterstock.com

The **message** is the actual physical product from the source that conveys some purpose. When we speak, the words spoken are the message. When we write, the writing is the message. When we paint, the picture is the message. When we gesture, the movements of our arms and the expressions on our faces are the message.[3] Our message is affected by the code or group of symbols we use to transfer meaning, the content of the message itself, and the decisions we make in selecting and arranging both codes and content.[4]

message

The actual physical product that the sender creates to convey their purpose

> **What** do managers communicate? The 3 'I's: **Information**, **Ideas**, **Instructions**.

The **channel** is the medium through which the message travels. It's selected by the source, who must determine whether to use a formal or an informal channel. Formal channels are established by the organisation and transmit messages that pertain to the job-related

activities of members. They traditionally follow the authority network within the organisation. Other forms of messages, such as personal or social, follow the informal channels in the organisation.

channel

The medium by which a message travels

The importance of facilitating shared meaning determines the sender's requirements for media richness.[5] **Media richness** refers to the capacity for different communication media to facilitate shared meaning. Media richness is determined by characteristics such as whether the channel is personal or impersonal, the number of message cues that can be communicated through it, whether it can return immediate and continuing feedback to the sender, and the speed at which messages can be sent. For example, face-to-face communication is one of the richest communication media because the communication is personal and fast, can convey multiple cues about meaning (e.g. body language and verbal intonation), and accommodates immediate feedback from the receiver so that the sender knows whether their meaning was understood. Conversely, a general email message sent to a group list is a lean medium because the message is impersonal, may be slow to arrive, conveys few cues about meaning and delays feedback. Managers need to understand the importance of media richness in order to choose an appropriately

rich medium for their message. The more complex the issue or ambiguous the message, the richer the channel should be.

media richness
: The capacity for different communication media to facilitate shared meaning

The receiver is the person to whom the message is directed. However, before the message can be received, the symbols in it must be translated into a form that can be understood by the receiver – the **decoding** of the message. Just as the encoder was limited by their skills, attitudes, knowledge and social cultural system, the receiver is equally restricted. Accordingly, the source must be skilful in writing or speaking, the receiver must be skilful in reading or listening, and both must be able to reason. A person's knowledge, attitudes and cultural background influence their ability to receive, just as they do their ability to send.

decoding
: Translating a received message

The final link in the communication process is a feedback loop. This is how the source finds out what the receiver thought their message actually meant.[6] **Feedback** is the check on how successful we've been in transferring our messages as originally intended. It determines whether understanding has been achieved. Given the cultural diversity that exists in our workforce today, the importance of effective feedback to ensure proper communications cannot be overstated.[7]

feedback

Checking to see how successfully a message has been transferred

Any part of the communication process can be disrupted by **noise**, and in this context noise means anything that interferes with effective communication. Perhaps you've rung someone and their mobile phone signal has dropped out. Or someone spoke to you while you were thinking of something else so you were distracted and didn't catch everything they said. These are both examples of noise that make the communication process ineffective.

noise

Any factor that interferes with or disrupts the communication process

Are written communications more effective than verbal ones?

Written communications include memos, letters, email and other forms of digital communication, organisational periodicals, bulletin boards or any other device that transmits written words or symbols. Why would a sender choose to use written communications?

- **Advantages:** Because they're tangible, verifiable and more permanent than the verbal variety. Typically, both sender and receiver have a record of the communication. The message can be stored for an indefinite period of time. If questions arise about the content of the message, it's physically available for later reference. This feature is particularly important for complex or lengthy communications. For example, the marketing plan for a new product is likely to contain a number of tasks spread out over several months. By putting it in writing, those who have to carry out the plan can readily refer to the document over the life of the plan. A final benefit of written communication comes from the process itself. Except in rare instances, such as when presenting a formal speech, more care is taken with the written word than with the spoken word. Having to put something in writing forces a person to think more carefully about what they want to convey. Therefore, written communications are more likely to be well thought out, logical and clear.

- **Drawbacks:** Of course, written messages have their drawbacks. Writing may be more precise, but it also consumes a great deal of time. You could convey far more information to your university lecturer in a one-hour oral exam than in a one-hour written exam. In fact, you could probably say in 10–15 minutes what it takes you an hour to write. The other major disadvantage is feedback or, rather, lack of it. Verbal communications allow receivers to respond rapidly to what they think they hear. However, written communications don't have a built-in feedback mechanism. Sending a memo is no assurance that it will be received and, if it is received, no guarantee that the recipient will interpret it as the sender meant. The latter point is also relevant to verbal communication, but it's easier in such cases merely to ask the receiver to summarise what you have said. An accurate summary presents feedback evidence that the message has been received and understood.

Is the grapevine an effective way to communicate?

> The **grapevine**: fruitful or not?

The **grapevine** is the unofficial way communications take place in an organisation. It's neither authorised nor supported by the organisation. Rather, information is spread by word of mouth – and even through electronic means. Ironically, good information passes among us rapidly, but bad information travels even faster.[8] The grapevine gets information out to organisational members as quickly as possible.

grapevine

An unofficial channel of communication

The biggest question raised about grapevines, however, focuses on the accuracy of the rumours. Research on this topic has found somewhat mixed results. In an organisation characterised by openness, the grapevine may be extremely accurate. In an authoritative culture, the rumour mill may not be accurate. But even then, although the information flowing is inaccurate, it still contains

some element of truth. Rumours about major organisational changes may be filled with inaccurate information regarding who will be affected or when the changes may occur. Nonetheless, the reports that something is about to happen are probably on target.

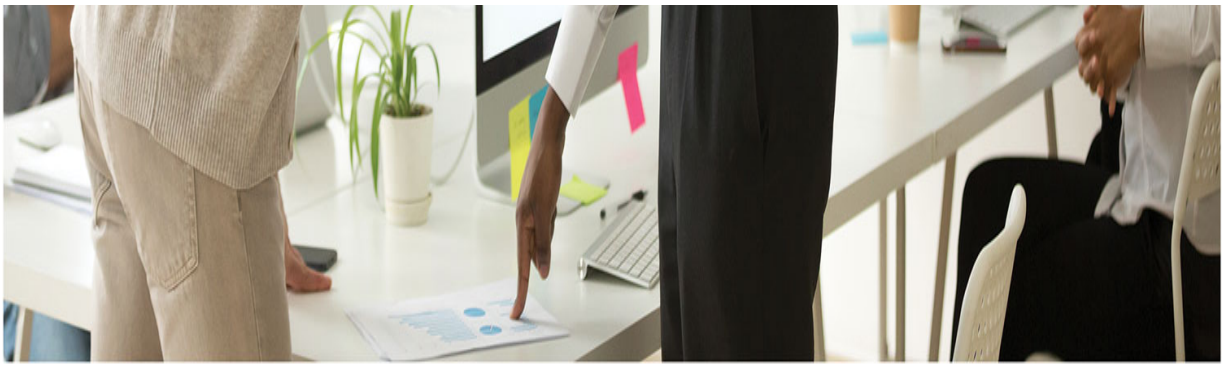
How do non-verbal cues affect communication?

Some of the most meaningful communications are neither spoken nor written. They are non-verbal communications. A loud siren or a red light at an intersection tells you something without your needing words to understand it. A university lecturer doesn't need words to know that students are bored; their eyes get glassy or they start checking their mobile phones. Similarly, when papers start to rustle and students start to close their notebooks or laptops, the message is clear: class time is nearly over. The size of a person's office and desk or the style of clothes they wear also convey messages to others. However, the best-known areas of non-verbal communication are body language and verbal intonation.

Body language refers to gestures, facial configurations and other movements of the body.[10] A snarl, for example, says something different from a smile. Hand motions, facial expressions and other gestures can communicate emotions or temperaments such as aggression, fear, shyness, arrogance, joy and anger.[11]

body language

Non-verbal communication cues such as facial expressions, gestures and other body movements



Body language that includes gestures such as hand motions and facial expressions are areas of non-verbal communication that can express fear, shyness, arrogance, joy, anger, and other emotions and temperaments.

fizkes/Shutterstock.com

> It's not WHAT you say, but **HOW you say it**.

Verbal intonation refers to the emphasis someone gives to words or phrases. To illustrate how intonations can change the meaning of a message, consider the student who asks their lecturer a question. The lecturer replies, 'What do you mean by that?' The student's reaction will vary, depending on the tone of the lecturer's response. A soft, smooth tone creates a different meaning from one that is abrasive with a strong emphasis on the last word. Most of us would view the first intonation as coming from someone who sincerely sought clarification, whereas the second suggests that the person is aggressive or defensive. When they communicate, managers should remember the adage: 'It's not *what* you say, but *how* you say it.'

verbal intonation

An emphasis given to words or phrases that conveys meaning

The fact that every oral communication also has a non-verbal message cannot be overemphasised.[12] This is because the non-verbal component is likely to carry the greatest impact. Research indicates that from 65 to 90 per cent of the message of every face-to-face conversation is interpreted through body language. Without complete agreement between the spoken words and the body language that accompanies it, receivers are more likely to react to body language as the 'true meaning'.[13]

Classic concepts in today's organisations: The grapevine: An important source of information

One of the most famous studies of the grapevine was conducted by management researcher Keith Davis, who investigated the communication patterns among 67 managerial personnel.[9] The approach he used was to learn from each communication recipient how they first received a given piece of information and then to trace it back to its source. It was found that, while the grapevine was an important source of information, only 10 per cent of the executives acted as liaison individuals (i.e. passed the information on to more than one other person). For example, when one executive decided to resign to enter the insurance business, 81 per cent of the executives knew about it, but only 11 percent transmitted this information to others. At the time, this study was interesting because of what it found, but more importantly because of what it showed about how the communication network worked.

Recent research by IBM and the Massachusetts Institute of Technology using a similar type of analysis focused more on

people's social networks of contacts at work rather than on how information flowed through the organisational grapevine. However, what was notable about this study was its finding that employees who have strong communication ties with their managers tend to bring in more money than those who steer clear of the boss.

What managers can learn from both these studies is that it's important to understand the social and communication networks employees use as they do their work. You need to know who the key contact points are so that if you ever need to find out or relay information, you know who to go to.

Discuss this

- How and why would managers need to understand the social and communication networks employees use when employees mostly communicate with others in the same organisation?
- How do you think social media have affected the way the grapevine operates in today's organisations?

What barriers keep communication from being effective, and how can they be overcome?

A number of interpersonal and intrapersonal barriers affect why the message decoded by a receiver is often different from what the sender intended. We briefly describe the more prominent barriers to effective communication here.

How does filtering affect communication?

Filtering refers to the way that a sender manipulates information so that it will be seen more favourably by the receiver. For example, when a manager tells their boss what they feel that boss wants to hear, they are filtering information. Filtering happens frequently in organisations. As information is passed up to senior executives, it has to be condensed and synthesised by subordinates so that upper management doesn't become overloaded with information. Those doing the condensing filter communications through their own personal interests and perceptions of what's important.

filtering

Deliberately manipulating information to make it appear more favourable to the receiver

The extent of filtering tends to be the function of the organisation's culture and number of vertical levels in the organisation. More vertical levels in an organisation mean more opportunities for filtering. As organisations become less dependent on strict hierarchical arrangements and instead use more collaborative, cooperative work arrangements, information filtering may become less of a problem. In addition, the ever-increasing use of email to communicate in organisations reduces filtering because communication is more direct as intermediaries are bypassed. Finally, the organisational culture encourages or discourages filtering by the type of behaviour it rewards. The more that organisational rewards emphasise style and appearance, the more managers will be motivated to filter communications in their favour.

How does selective perception affect communication?

The second barrier is **selective perception**. We've mentioned selective perception before in this text. We discuss it again here because the receivers in the communication process selectively see

and hear based on their needs, motivations, experience, background and other personal characteristics. Receivers also project their interests and expectations into communications as they decode them. The employment interviewer who expects a female job applicant to put her family ahead of her career is likely to see that tendency in female applicants, regardless of whether the applicants would do so or not. As we said in the chapter on understanding individual behaviour, we don't see reality; rather, we interpret what we see and call it reality. We can counter selective perception by being aware of its influence and actively checking how accurate our perceptions are.

selective perception

Selectively perceiving or hearing a communication based on your own needs, motivations, experiences or other personal characteristics

How does information overload affect communication?

When people receive more information than they can sort out and process, they suffer **information overload**. Today's typical executive frequently complains of information overload.[14] The

demands of keeping up with email, phone calls, postings on social media, meetings and professional reading create an onslaught of data that is nearly impossible to process and assimilate. When people experience information overload, they're likely to select out, ignore, pass over or forget information. Or they may put off further processing until the overload situation is over. In any case, the result is lost information and less effective communication.

information overload
What results when information exceeds processing capacity

How do emotions affect communication?

How a receiver feels when a message is received influences how they interpret it. You'll often interpret the same message differently, depending on whether you're happy or distressed. Extreme emotions are most likely to hinder effective communications. A manager who's upset over an issue is more likely to misconstrue incoming messages and fail to communicate their outgoing messages clearly and accurately. In such instances, we often disregard our rational and objective thinking processes and substitute emotional judgments. It's best to avoid reacting to a message when you're upset because

you're likely not to be thinking clearly. The simplest answer is to calm down and get your emotions under control before communicating.

How does language affect communication?

Senders tend to assume that the words and phrases they use mean the same to the receiver as they do to them. This assumption, of course, is incorrect and creates communication barriers. Words mean different things to different people. 'The meanings of words are not in the words; they are in us.'[15] For example, the grouping of employees into departments creates specialists who develop their own **jargon** or technical language.[16] In large organisations, members are also frequently widely dispersed geographically – even operating in different countries – and individuals in each locale will use terms and phrases that are unique to their area.[17] Jargon can facilitate understanding if it's used within a group that knows what it means, but can cause problems when used outside that group.

jargon

Technical language, specific to a discipline or industry

Because language can be a barrier, managers should consider the audience to whom the message is directed and tailor the language to them. Remember, effective communication is achieved when a message is both received and *understood*. So, always try to communicate in clear, easily understood terms and to use language tailored to the message audience. For example, a police inspector would use different terms to communicate with police officers than they would use to communicate with administrative employees.

Managing for diversity and inclusion: Using inclusive language

Using inclusive language is a powerful and positive way of eliminating discrimination and making workplaces feel inclusive, supportive and respectful of everyone.[18] Inclusive language signals to everyone that they are being reflected and included in what is said. It stops people from feeling hurt, demeaned or offended by discriminatory language, and prevents prejudiced, biased and stereotypical views of particular people or groups from being perpetuated. In practice, using inclusive language means using terms and ways of speaking that treat all people with respect and impartiality.

For example, gender-inclusive language replaces gender-specific terms such as ‘he’ or ‘she’ with gender-neutral terms such as ‘they’. When using collective terms, replace patronising expressions (e.g. ‘the girls in the office’, ‘the boys in the factory’) with respectful and/or gender-neutral alternatives (e.g. ‘the women in the office’ or ‘the office staff’). Use gender-neutral terms for roles or occupations, such as referring to the person chairing a meeting as the chair rather than the chairman.

Culturally inclusive language reflects and is respectful of people's cultural diversity and heritage. One way to do this is to avoid using umbrella terms such as 'Asians', as such a term ignores racial diversity. Instead, refer to people by their nationalities – for example, 'people from Thailand'. Use inclusive terms such as 'first name' and 'family' name, rather than 'Christian name' and 'surname'. When referring to Indigenous Australians, the most accurate and inclusive collective term is 'Aboriginal and Torres Strait Islander peoples', but many Aboriginal individuals identify themselves using terms derived from their own language, such as Palawa (for Tasmanian Aboriginal people) or Koori (in parts of southeastern Australia).

Using language that is inclusive of all sexual orientations and gender identities acknowledges the diversity of people's feelings and relationships. For example, asking about someone's 'partner' rather than their 'husband', 'wife', 'boyfriend' or 'girlfriend' is inclusive of all forms of sexual orientation and marital status.

Two other key ways to make language inclusive:

- Take out the adjectives! Don't refer to people's sex, religion, racial group, disability or age unless it is specifically relevant to the topic under discussion.
- Ask people directly and respectfully how they identify themselves and like to be referred to, and then honour their wishes.

How does gender affect communication?

Effective communication between the sexes is important in all organisations if they are to meet organisational goals. Preventing gender differences from becoming communication barriers requires acceptance, understanding and a commitment to communicate adaptively with each other.

How does national culture affect communication?

Finally, communication differences can also arise from the different languages that individuals use to communicate and the national culture of which they're a part.[19]

Ana Botin, executive chairperson of Spain's Banco Santander, is respected as an empathetic listener and a good communicator and consensus builder. Shown here communicating with employees at a bank in London, Botin asks questions and listens to feedback from employees, customers and shareholders that helps her plan the company's strategy.

Anthony Devlin/PA Wire URN:11384241/AP Images

In individualistic countries like Australia, communication patterns tend to be oriented to the individual and clearly spelled out. Managers rely heavily on emails, announcements, position papers and other formal

forms of communication to state their positions on issues. Supervisors in these types of countries may hoard information in an attempt to make themselves look good (filtering) and as a way of persuading their employees to accept decisions and plans. And for their own protection, lower-level employees also engage in this practice.

In collectivist countries, such as Japan, there's more interaction for its own sake and a more informal manner of interpersonal contact. The Japanese manager, in contrast to the Australian manager, engages in extensive verbal consultation with employees over an issue first and draws up a formal document later to outline the agreement that was made. The Japanese value decisions by consensus, and open communication is an inherent part of the work setting. Also, face-to-face communication is encouraged.[20]

Cultural differences can affect the way a manager chooses to communicate.[21] These differences can undoubtedly be a barrier to effective communication if they are not recognised and taken into consideration.

How can managers overcome communication barriers?

Given these barriers to communication, what can managers do to overcome them? The following suggestions should help make communication more effective.

Listen actively

We can make the communication process more effective through **active listening**, which is listening for full meaning without making premature judgments or interpretations. Many of us are poor listeners. When someone talks, we hear. But too often, we don't listen. Hearing is passive, whereas listening is an active search for meaning where we put effort into the communication. Listening is difficult, and is often more tiring than talking. The average person normally speaks at a rate of about 125 to 200 words per minute. However, the average listener can comprehend up to 400 words per minute.[22] The difference leaves lots of idle brain time and opportunities for the mind to wander. Hence the need to actively listen.

active listening

Listening for full meaning without making premature judgments or interpretations

Active listening requires four essential elements: (1) intensity, (2) empathy, (3) acceptance, and (4) a willingness to take responsibility for completeness.[23] The active listener *concentrates intensely* on what the speaker is saying and tunes out the thousands of miscellaneous thoughts (about money, sex, holidays, parties, exams, and so on) that create distractions. Active listeners use their idle brain time to summarise and integrate what has been said. They put each new piece of information into the context of what preceded it. Active listeners *empathise* by putting themselves in the speaker's shoes in order to understand what the speaker wants to communicate, rather than what the listener wants to hear. Empathy demands that the listener suspend their own thoughts and feelings and adjust what they see and feel to the speaker's world. In that way, they increase the likelihood that they'll interpret the message in the way the speaker intended.

An active listener demonstrates *acceptance*. They listen objectively without judging content, which isn't an easy task. When we hear something we disagree with, we have a tendency to begin formulating our mental arguments to counter what is being said. Of course, in doing so, we miss the rest of the message. The challenge for the

active listener is to absorb what's being said and withhold judgment on content until the speaker is finished.

The final ingredient of active listening is taking *responsibility for completeness*. That is, the listener does whatever is necessary to get the full intended meaning from the speaker's communication. Two widely used active listening techniques are listening for feeling as well as for content, and asking questions to ensure understanding.

Use feedback

We can also enhance effective communication by using feedback. Many communication problems are directly attributed to misunderstanding and inaccuracies, which are less likely to occur if the manager gets verbal and non-verbal feedback. A manager can ask questions about a message to determine whether it was received and understood as intended. Or the manager can ask the receiver to restate the message in their own words. If the manager hears what was intended, understanding and accuracy should improve. Feedback can also be more subtle, as general comments can give a manager a sense of the receiver's reaction to a message. Feedback doesn't have to be verbal. If a sales manager emails information about a new monthly sales report that all sales representatives will need to complete and some of them don't turn it in, the sales manager has received feedback. This feedback suggests that the sales manager needs to clarify the initial communication. Similarly, managers can look for non-verbal cues to determine whether someone's getting the message. For example, if Anne asks Mitzi to 'send me that report by

Friday' and Mitzi's facial expression turns quizzical or confused, Anne receives feedback that Mitzi didn't understand the message and that Anne has to clarify her meaning, perhaps by specifying which particular report she wants.

Managing for sustainability: Talking up sustainability

You've probably gathered by now that communication is critical to managing for sustainability.[24] It's obviously crucial to achieving operational sustainability, and it's also how organisations inform employees, customers and other stakeholders about their sustainability initiatives so that they can get stakeholders to support them. But many organisations don't communicate effectively about sustainability. One common error is that organisations explain their approaches to sustainability by describing *what* they do, rather than explaining *why* they do it and what has been achieved. If audiences think an organisation is just trying to promote itself and look good, this can undermine the credibility and impact of its communications. By communicating in ways that feel authentic and true, organisations can be more engaging and successful.

Here are some tips for communicating about sustainability:

- Understand your audience: what knowledge or attitudes might they already have about sustainability?
- Keep your message simple, but don't dumb it down.
- Be creative and different in the way you make your point.

- Convince your audience using data and emotion, so that you can engage their hearts and minds.
- Use genuine stories and examples, and talk about what went wrong as well as what worked.

Simplify language

Because language can be a barrier, managers should consider the audience to whom the message is directed and tailor the language to them. Remember, effective communication is achieved when a message is both received and *understood*. For example, a hospital administrator should always try to communicate in clear, easily understood terms and to use language tailored to different employee groups. Messages to the surgical staff should be purposefully different from those directed to the marketing team or office employees. Jargon can facilitate understanding if it's used within a group that knows what it means, but can cause problems when used outside that group.

How is technology affecting managerial communication?

> Learning outcome 14.2 Explain how technology affects managerial communication.

Information technology has radically changed the way organisational members communicate. Many organisations now use networked computer systems that link computers together through compatible hardware and software, creating an integrated organisational network.[25]

Wireless communication technologies such as smartphones, netbook computers, notebook computers and other pocket communication devices have spawned a whole new way for managers to ‘keep in touch’. Globally, millions of people use wireless technology to send and receive information from anywhere, meaning that organisational members can communicate with each other and tap into information whether they’re down the corridor, across town or anywhere on the globe.

These developments have significantly improved a manager’s ability to monitor individual and team performance, allowed employees to have more complete information to make faster decisions, and provided employees with more opportunities to collaborate and share

information. However, they have also created some managerial challenges. Employees are now always in reach and are often receiving communications through multiple channels, which can cause information overload and compromise their decision-making processes. Employees also need to be able to filter out irrelevant or unimportant communications, focus on those that are important and determine how to deal with them. A third issue is that communication from multiple channels distracts attention and undermines concentration. Research indicates that employees can lose an average of two hours per week processing unnecessary emails, and when people are constantly distracted they become so used to interruptions that even when they are given quiet time to focus, they distract themselves as often as they had previously been interrupted.[26] Dealing with constant communication also blurs the lines between work and private life, with employees checking emails in the toilet or from bed and spending several hours clearing their inbox before they get to the office so that they can then concentrate on their 'real' work.

These challenges all have an impact on employee wellbeing, stress, work/life balance and productivity, so it's important that organisations help employees to manage them. One option is to permit employees to check email at set times in the day, or to turn it off so they can concentrate on other tasks. Clear top-down signals are important, though: if employees think they will be rewarded for being available 24/7, they will stay connected, even if that means they aren't necessarily productive.

Rethinking management in a global crisis: Meeting online . . . all the time!

When the COVID-19 pandemic necessitated social distancing and enforced working from home, almost overnight webconferencing became part of daily life. Of course, it had been around for some time before that, but suddenly it was being used for *everything.* This generated some valuable new insights into both the strengths and limitations of this communication technology.[27]

One valuable lesson was that webconferencing helped to maintain (and in some cases, enhance) delivery of a whole lot of essential services. When educational institutions had to close their campuses, teachers used webconferencing to support learning from home and to maintain connections with their students. In health care, webconferencing enabled massive expansions of telehealth services. One immediate benefit was safer consultations, since doctors and patients didn't need to be physically proximate to each other or to other sick people. Another was to increase the availability of health services to people in regional and remote locations (who could access specialist expertise not available in their local area) and for people with mobility issues who would otherwise have needed carers to take them to appointments. For other organisations, the forced

adoption of webconferencing demonstrated that the technology was more easily and widely usable than had previously been realised. It also raised questions as to whether and why a return to face-to-face meetings was even necessary!

But widespread and ongoing use of webconferencing also highlighted some limitations of the technology. One critical issue was the impact on people's privacy. Webconferencing from home meant colleagues learnt, and shared, a lot more about their personal lives than they would usually do. For some, this felt both exposing and confronting. Viral footage of webconferencing 'fails' (such as going to the toilet with the webcam still on!) highlighted the importance of training in webconferencing protocols. Meanwhile, anecdotal reports indicated the mental and emotional tolls of spending days in webconferences, due to a lack of 'alone time' for thinking and working, the need to be constantly 'on show', and the feeling of being 'under surveillance'.

What communication issues do managers face today?

Learning outcome 14.3 Discuss contemporary issues in communication.

Being an effective communicator in today's organisations means being connected – most importantly, to employees and customers, but in reality, to any of the organisation's stakeholders. In this section, we examine six communication issues of particular significance to today's managers: managing communication in a networked world, managing the organisation's knowledge resources, communicating with customers, getting employee input, communicating when negotiating, and communicating ethically.

How do we manage communication in a networked world?

As we discussed earlier, email can consume employees, but it's not always easy for them to let go of it, even when they know it can be 'intexticating'. Some companies have tried reducing the use of email by introducing 'email-free days'.[28] Others have tried using other communication forums, such as internal social networks, so that employees can still share information and communicate efficiently but have more control over when they opt in and out of discussions.[29] Managers are learning, the hard way sometimes, that all this new technology has created special communication challenges. The two main ones are: (1) legal and security issues, and (2) lack of personal interaction.

> This is **BIG**!

Legal and security issues

Although email, blogs, tweets and other forms of online communication are quick and easy ways to communicate, managers need to be aware of potential legal problems from inappropriate

usage. Says one expert, ‘Today, email and instant messaging are the electronic equivalent of DNA evidence.’[30] But legal problems aren’t the only issue; security concerns are an issue as well.

A survey addressing outbound email and content security found that 26 per cent of the companies surveyed saw their businesses affected by the exposure of sensitive or embarrassing information.[31] Managers need to ensure that confidential information is kept confidential. Employee emails and blogs shouldn’t communicate – inadvertently or purposely – proprietary information. Corporate computer and email systems should be protected against hackers (people who try to gain unauthorised access to computer systems) and spam (electronic junk mail). These serious issues must be addressed if the benefits of communication technology are to be realised.

Internal social media enable these IBM employees in Dublin, Ireland, to communicate and collaborate with colleagues at IBM offices throughout the world. They use IBM Connections, a social network platform, and Sametime 8.5.2, IBM’s internal instant messaging system, to share knowledge, improve decision making and accelerate innovation.

Artur Widak/ZUMA Press/Newscom

Personal interaction

Another communication challenge posed by the Internet age we live and work in is the lack of personal interaction.[32] When communication takes place in a virtual environment, it can be harder to build rapport with the people you work with, making it harder to achieve understanding and collaborate on getting work done. In response, some companies have encouraged employees to collaborate more in person. Others use real-time collaboration software (such as private workplace blogs, instant messengers such as WhatsApp and other types of groupware) to encourage more direct communication than sending an email and waiting for a response.[33] Some are also encouraging employees to utilise the power of social networks to collaborate on work and to build strong connections. This trend is especially appealing to workers who already use these communication media in other parts of their lives.

How does knowledge management affect communication?

Part of a manager's responsibility in fostering an environment conducive to learning and effective communications is to create learning capabilities throughout the organisation. These opportunities should extend from the lowest to the highest levels in all areas. How can managers create such an environment? An important step is to recognise the value of knowledge as a major resource, just like cash, raw materials or office equipment. But in an organisation, just recognising the value of accumulated knowledge or wisdom isn't enough. Managers must deliberately manage that base of knowledge. **Knowledge management** involves cultivating a learning culture in which organisational members systematically gather knowledge and share it with others in the organisation so as to achieve better performance.[35] For example, accountants and consultants at EY document best practices that they've developed, unusual problems they've dealt with, and other work information. This knowledge is then shared with all employees through computer-based applications and through community of interest teams that meet regularly throughout the company. Many other organisations, including General Electric, Toyota and Hewlett-Packard, have recognised the importance of knowledge management within a learning organisation

(see the chapter on organisational structure and design). Today's technologies are helping to improve knowledge management and facilitating organisational communications and decision making.

knowledge management

Cultivating a learning culture in which organisational members systematically gather knowledge and share it with others

A question of ethics: Who says?

Want to vent about your boss or the organisation you work for? Now there are apps to do just that: Blind, Memo and Whisper, among others.[34] In these apps, users post anonymous messages about their employers. These forums give people an opportunity to provide honest feedback about their managers and workplace that they might not otherwise have the chance to communicate. But as on other social media platforms, posting anonymously has both upsides and downsides.

Discuss this

- How do apps that let employees post anonymous feedback benefit employees? Managers?
- What ethical dilemmas might arise because of these apps?

What's involved with managing the organisation's knowledge resources?

In addition to online information databases for sharing knowledge, companies can create **communities of practice**, which are groups of people who share a concern, a set of problems or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis. To make these communities of practice work, however, it's important to maintain strong human interactions through communication using such essential tools as interactive websites, email and videoconferencing. In addition, these groups face the same communication problems that individuals face – filtering, emotions, defensiveness, over-documentation and so forth. However, groups can resolve these issues by focusing on the same suggestions we discussed earlier.

communities of practice

Groups of people who share a concern, a set of problems or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis

What role does communication play in customer service?

An organisation with a strong service culture already values taking care of customers – finding out what their needs are, meeting those needs and following up to make sure that their needs were met satisfactorily. For example, at Ritz-Carlton Hotels, the hotel's database allows service to be personalised to customers' expectations. Customers who have stayed at a location previously and indicated that certain items are important to them – such as extra pillows, hot chocolate or a certain brand of shampoo – will find those items waiting in their room at arrival. In addition, all employees are asked to communicate information related to service provision. For example, if a room attendant overhears guests talking about celebrating an anniversary, they are supposed to relay the information so that something special can be done.[37]

Providing outstanding customer service is crucial to Voyages Indigenous Tourism Australia because it is committed to providing its guests with ‘enriching, memorable experiences, which they would not be able to enjoy anywhere else in Australia’ and to ‘nurturing and sharing Australia’s sensitive and complex eco and cultural destinations’.[36] Guests experience authentic Indigenous culture while staying in iconic Australian wilderness locations such as Uluru and the

Kimberley. Staff are trained to offer relaxed, efficient and friendly service, and to help guests understand Indigenous cultural values and practices.

© Bill Bachman/Alamy

Communication is also important to the individual service provider or contact employee. The quality of the interpersonal interaction between the customer and that contact employee influences customer satisfaction, especially when the service encounter isn't up to expectations.[38] Employees on the front line are often the first to hear about or notice service failures or breakdowns. They must decide *how* and *what* to communicate during these instances. Their ability to listen actively and to communicate appropriately with the customer goes a long way in whether the situation is resolved to the customer's satisfaction or spirals out of control.

How can we get employee input?

Employees can provide valuable input about what's working and what isn't in an organisation. In today's challenging environment, managers can't afford to ignore such potentially valuable information! Getting employee input about the challenges they face is crucial to improving an organisation's products, services and operations. But as we've discussed throughout the text, it also helps them to feel engaged and valued, which enhances their job satisfaction and motivation. So, how can organisations get employee input? Deloitte Australia, one of the country's four biggest professional service companies, has created its own in-house social media platforms to help its 7,000 employees communicate with each other, share their knowledge and ideas, and improve its service for clients. For instance, on Deloitte's Innovation Academy, employees can post and vote on innovative ideas that help Deloitte to improve its client services and operations.

How should managers communicate when negotiating?

Managers spend a significant amount of time on their jobs negotiating. They have to negotiate salaries for incoming employees, cut deals with their bosses, work out differences with their peers and resolve conflicts with employees. Others have to negotiate contracts and other agreements with people outside their organisations. For our purposes, we define **negotiation** as a process in which two or more parties who have different preferences must make a joint decision and come to an agreement.

> ***negotiation***
>
> A process in which two or more parties who have different preferences must make a joint decision and come to an agreement

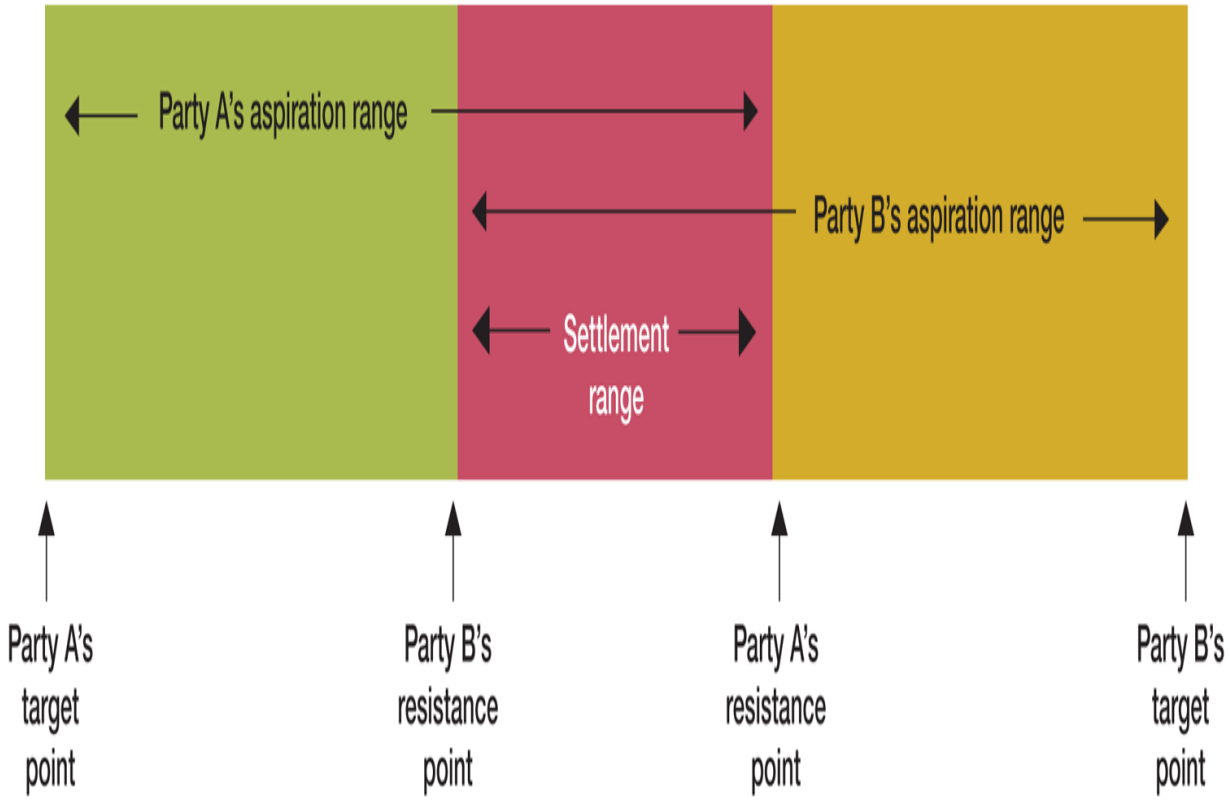
Two general approaches to negotiation are distributive bargaining and integrative bargaining.[39] **Distributive bargaining** operates under zero-sum conditions.[40] The essence of distributive bargaining is

negotiating over who gets what share of a fixed pie. Thus, any gain you make is at the expense of the other person, and vice versa.

distributive bargaining
Negotiation under zero-sum conditions, in which any gain by one party involves a loss to the other party

In distributive bargaining, each party has a target point that defines what they would like to achieve. Each also has a resistance point that marks the lowest acceptable outcome (see **Figure 14.2**). The area between their resistance points is the settlement range. As long as these ranges of aspiration overlap each other to some extent, there exists a settlement area in which each one's aspirations can be met. For instance, when you buy a car and negotiate a lower price, every dollar you can get the seller to cut from the price of the used car is a dollar you save. Conversely, every dollar more they can get from you comes at your expense. The aim is to find a price in your settlement range that you can both accept.

Figure 14.2 Determining the bargaining zone



In contrast to distributive bargaining, **integrative bargaining** operates under the assumption that at least one settlement can create a win–win solution. For example, two business partners are buying a new company vehicle. One partner wants to get a very fuel-efficient vehicle in order to save on running costs. The other wants to get a vehicle that can carry a lot of cargo so they can transport products to customers. If they were engaging in integrative bargaining, they would try to find a vehicle that met both the cargo-carrying requirement and the fuel-efficiency requirement.

integrative bargaining

> Negotiation in which there is at least one settlement that involves no loss to either party

How can communication skills help managers to negotiate effectively?

The essence of effective negotiation can be summarised in the following seven recommendations.[41]

- **Research the individual with whom you'll be negotiating.** What are that individual's interests and goals? What people must the individual appease? Who do they need to answer to? This information will help you to better understand their behaviour, to actively listen in negotiation sessions and to frame solutions in terms of their interests.
- **Begin with a positive overture.** Research shows that concessions tend to be reciprocated and lead to agreements. As a result, begin bargaining with a positive overture – perhaps a small concession – to signal that you want the negotiations to succeed.
- **Address problems, not personalities.** When negotiations get tough, avoid the tendency to attack the other party. Remember: it's that person's ideas or position that you disagree with, not them personally.

- **Pay little attention to initial offers.** Everyone has to have an initial position, and initial positions tend to be extreme and idealistic. Treat an initial offer as merely a point of departure for the negotiations.
- **Emphasise win–win solutions.** Frame options in terms of the other party's interests and look for solutions that can allow this individual, as well as yourself, to declare a victory.
- **Create an open and trusting climate.** Skilled negotiators are better listeners, ask more questions, focus on their arguments more directly, are less defensive, and have learnt to avoid words or phrases that can irritate the person with whom they're negotiating (such as a 'generous offer', 'fair price' or 'reasonable arrangement').
- **If needed, be open to accepting third-party assistance.** When stalemates are reached, consider the use of a neutral third party. Conciliators act as a communication conduit, passing information between the parties, interpreting messages and clarifying misunderstandings. Mediators can help parties come to an agreement, but they don't impose a settlement. Arbitrators hear both sides of the dispute, then impose a solution.

Why should managers be concerned with communicating ethically?

It's particularly important today that a company's communication efforts be ethical. **Ethical communication** 🛈 'includes all relevant information, is true in every sense and isn't deceptive in any way'.[42] On the other hand, unethical communication often distorts the truth or manipulates audiences. What are some ways that companies communicate unethically? It could be by omitting essential information. For example, it would be unethical not to tell employees that an impending merger will mean that some of them will lose their jobs. It's also unethical to plagiarise, which is 'presenting someone else's words or other creative product as your own'.[43] It would also be unethical communication to selectively misquote, misrepresent numbers, distort visuals, and fail to respect privacy or information security needs.

ethical communication

Presented material that contains all relevant information, is true in every sense and isn't

deceptive in any way

So, how can managers encourage ethical communications? One thing is to ‘establish clear guidelines for ethical behaviour, including ethical business communication’.[44] If no clear guidelines exist, it’s important to answer the following questions:

- Has the situation been defined fairly and accurately?
- Why is the message being communicated?
- How will the people who may be affected by the message or, who receive the message be impacted?
- Does the message help achieve the greatest possible good while minimising possible harm?
- Will this decision that appears to be ethical now seem so in the future?
- How comfortable are you with your communication effort? What would a person you admire think of it?[45]

Remember that as a manager, you have a responsibility to think through your communication choices and the consequences of those choices. If you always remember that, you’re likely to have ethical communication.

In 2016, four people were tragically killed at the Dreamworld theme park on Queensland’s Gold Coast. Poor handling of the tragedy by

Dreamworld's parent company, Ardent Leisure, was made even worse when CEO Deborah Thomas got an embarrassing lesson in ethical communication. Thomas, shown here arriving at the company's 2016 annual general meeting, stated at a press conference that the company had reached out to the victim's families. Her claim was challenged by a journalist, who said that one of the families had commented that they *hadn't* heard from the company. When Thomas then admitted that the family hadn't been contacted because she 'didn't know how to contact them', the journalist offered her the family's mobile phone number.[46]

Dean Lewins/AAP images

Review

Chapter 14 summary

14.1 Describe what managers need to know about communicating effectively.

Communication is the transfer and understanding of meaning. The communication process consists of seven elements: First, a *sender* or source has a message. A *message* is a purpose to be conveyed. *Encoding* converts a message into symbols. A *channel* provides the medium along which a message travels. *Decoding* happens when the *receiver* retranslates a sender's message. Finally, *feedback* lets the sender know whether the communication was successful. The barriers to effective communication include filtering, emotions, information overload, defensiveness, language and national culture. Managers can overcome these barriers by using feedback, simplifying language, listening actively, constraining emotions and watching for non-verbal clues.

14.2 Explain how technology affects managerial communication.

Technology has radically changed the way organisational members communicate. It improves a manager's ability to monitor performance; it gives employees more complete information to make faster decisions; it provides employees more opportunities to collaborate and share information; and it makes it possible for people to be fully accessible, anytime and anywhere. It has affected managerial communication through the use of networked computer systems and wireless capabilities.

14.3 Discuss contemporary issues in communication.

The two main challenges of managing communication in a networked world are the legal and security issues and the lack of personal interaction.

Organisations can manage knowledge by making it easy for employees to communicate and share their knowledge so that they can learn from each other ways to do their jobs more effectively and efficiently. They can do this through online information databases, and through creating communities of practice.

Communicating with customers is an important managerial issue because *what* communication takes place and *how* it takes place can significantly affect a customer's satisfaction with the service and the likelihood of being a repeat customer.

It's important for organisations to get input from their employees. Such potentially valuable information shouldn't be ignored.

Finally, it's important that a company's communication efforts be ethical. Ethical communication can be encouraged through clear guidelines and through answering questions that force a communicator to think through the communication choices made and the consequences of those choices.

Discussion questions

14.1 Why isn't effective communication synonymous with *agreement*?
14.2 Identify four forms of 'noise' that can disrupt a communication process. For each one, explain how it disrupts communication.
14.3 'Ineffective communication is the fault of the sender.' Do you agree or disagree with this statement? Discuss.
14.4 Which do you think is more important for a manager: speaking accurately or listening actively? Why?
14.5 Select two barriers to effective communication and explain how they disrupt the communication process. How could these barriers be minimised or eliminated?
14.6 Is information technology helping managers be more efficient and effective? Explain your answer.
14.7 How might a manager use the grapevine to their advantage? Support your response.
14.8 Research the characteristics of a good communicator. Write up your findings in a bulleted list. Be sure to cite your sources.
14.9 Communication technology makes it easier for organisations to share information, but it also creates security risks. Find an example online of an organisation that has been hacked. What information was compromised? What issues did this create for the organisation?

14.10 Managers sometimes justify withholding information from employees by arguing that releasing it ‘would only distress people if they knew about it and isn’t something they can influence anyway’. Is it ethical to withhold information from people in these circumstances?

Management skills spotlight: Being a good listener

Most of us like to talk more than we like to listen. In fact, it's been facetiously said that listening is just the price we have to pay to get people to allow us to talk. Managers must be effective communicators if they are to do their job well. Part of effective communication is conveying clear and understandable messages. But it's also about using active listening skills to accurately decipher others' messages.

Experiential exercise

We've explained in this chapter that gender can influence communication. In this exercise, you're going to get some new insights into how gender can influence the ways people interpret information.

1. For one whole day, use a gender-neutral communication style. When you refer to someone else, use 'they' rather than 'he' or 'she'. When you describe someone else, don't use any gender-specific descriptors. For example:
    a. Refer to them as a 'person', an 'employee' or a 'student', rather than as a 'man', 'woman', 'male', 'female', 'girl' or 'boy'.
    b. If you are referring to them as having children, refer to them as a 'parent', rather than as a 'mum' or a 'dad'.
    c. If you are referring to someone being in a relationship, refer to them as having a 'partner', rather than a 'husband', 'wife', 'boyfriend' or 'girlfriend'.
    d. If someone asks you to specify the gender of the person you are referring to, tell them, but ask them why they wanted to know.

2. Now reflect on your experiences.
    a. Describe how other people responded. When you used gender-neutral language, did people make assumptions

about the gender of the person you were speaking about? Did their response change when they learnt what gender the person actually was?

b. Interpret what occurred. Why do you think they asked you to ‘fill in the blank’ about the person’s gender? How did knowing the person’s gender influence the way they interpreted the other information you gave them about the person?
c. Evaluate what occurred. What did you learn from this experience about the ways in which gender influences how people interpret information?
d. How could you use these insights in future? When communicating information about another person, in which circumstances do you actually *need* to specific their gender? Why?

Case application: Better flow leads to better care

In a hospital environment, doctors, nurses and allied health professionals such as physiotherapists and pharmacists have to manage, record and update an almost overwhelming amount of patient data. Making sure that information is as accurate, accessible and up to date as possible can literally save lives. Clinical staff need to be able to quickly and easily identify data relevant to the care of a specific patient, and optimise communication between members of the care team, the patient and hospital administrators. To achieve this, staff at the Western Hospital in Victoria collaborated with Alcidion and the Victorian government's Department of Business and Innovation to create the Miya Patient Flow system.[47]

The Miya Patient Flow system combines physical and software technology to create an intelligent patient journey system. The system integrates into an electronic medical record all the data about a particular patient collected from the time they are admitted to the hospital to the moment they are discharged. Anyone involved in the patient's care during their journey through the hospital can enter or retrieve their data using a mobile device or desktop portal. Large-format

television screens act as electronic whiteboards to display information about every patient on the ward to the whole care team.

> Accurate, accessible and up-to-date patient information can save lives.

The system allows all members of the care team to review or update the patient's entire record in real time. Any new information entered into the patient's record is automatically updated across the system so that it's immediately visible to anyone else who needs it. For example, a nurse administering an injection can record the procedure at the patient's bedside on a mobile device, and the patient's entry on the ward's electronic whiteboard will immediately be updated to include the information. The system also uses e-forms for clinical documentation, enabling doctors to order medical tests, medications and nursing tasks from the patient's bedside. As data from the patient's health record are automatically populated into the form, this saves time and the duplication of information. It also enhances patent safety and care by reducing the chances of information being recorded inaccurately and helping to ensure that decisions incorporate all relevant information. For example, if a doctor orders particular medication for a patient, nurses and pharmacists can check whether this might interfere with any of the patent's other treatments or health issues.

The system also helps staff make health-care processes more transparent and understandable to patients. By showing

patients the results of blood tests, X-rays or scans, staff can share new insights into the patient's health situation. This empowers patients by helping them to understand their health conditions and treatment options, and to be more actively involved in the decisions being taken about their care.

Making patient health information more visible and transparent also helps to improve patient safety and risk management. Because patient data are available to all staff on the ward in real time, any staff member can potentially identify patients who are at risk or need additional safety precautions, and intervene more quickly. Specialised software programs and intelligent monitoring systems can also be set to flag any changes in patient health or risks to patient safety and notify clinical staff to take immediate action.

The system also enables real-time tracking of resource usage, such as charting how long patients are staying in emergency departments and when a change in a patient's health might delay their discharge from the hospital. This allows more accurate predictions of how long beds will be needed and when they will be available to be allocated to new patients, which improves planning, productivity and quality of care across the whole patient journey.

Discussion questions

14.11 How does the Miya Patient Flow system leverage the advantages of written communication?

14.12 Which communication barriers would the Miya Patient Flow system help to overcome, and how would it do that?

14.13 How does the Miya Patient Flow system enhance knowledge management among care teams and within a hospital?

14.14 How does the system enhance a hospital’s care and customer service for its patients?

Running case: Holiday home helpers: Communicating by the board

On her first visit to the operations centre for HHH in her region, Mia noticed three large computer display screens covering one wall of Nate's office. Upon closer inspection, she realised they listed every property managed or cleaned by HHH in the region. Beside each property was listed the name of the cleaners and property managers responsible for the property, the weekday on which the maintenance team worked at the property, and whether the property was 'vacant' or 'occupied' and 'cleaned' or 'not cleaned yet'. It also had notes provided by cleaners or maintenance staff about any particular issues needing addressing by the company or raising with the owner.

'Wow,' said Mia, 'That really is a communication and information hub!'

'Yep, it's a powerful tool,' said Nate. 'We used to use "words and heads" instead. Most of that information was stored in the brains of the regional manager or the staff, and was passed on verbally when people remembered to do so. When the company was smaller, that didn't work too badly. But then the

company got bigger. The biggest issue was memory – people either forgot the information, or forgot to pass it on. Or they did pass it on, but then the person they told forgot to write it down or forgot to action it. And, of course, because we “didn’t know what we didn’t know”, we didn’t know how much information we were missing!

‘It was actually a new property manager that came up with the idea of creating a proper knowledge management system. The first version was a whiteboard: the property manager would liaise with all the cleaning and property and maintenance staff and then put everything together on the whiteboard. It took some time to get people to understand why it was better to do it this way. It’s hard to convince people that you’re fixing a problem when they can’t see it. Then it took a bit more time to teach them what we did want to know, what we didn’t need to know, how much detail we needed about issues that needed addressing. For instance, someone might note that at a particular property “the lightbulb in the lounge needs changing”. But which light was it? What kind of bulb was needed? Part of the issue was that some of our staff assumed that everyone in the company was as familiar with every property as they were. Another part was that staff were trying to remember so much they got overwhelmed!’

‘You’ve obviously come a long way since the whiteboard days!’ said Mia.

‘Yes, we have. Now we have an online database that every staff member can access via an app on their phone. They can

message any new details about the property they are working at, and we can update the system and the work process. For instance, if you were at a property and you noted that the kitchen sink was blocked, I can immediately see that one of our maintenance staff will be working at that property tomorrow. So, I can message you that they will fix it tomorrow and message them that they need to do that. Or if a property manager was getting flowers delivered to a property for a special booking, they can see when someone will be at the property and arrange the delivery for that time.'

'Any downsides?' asked Mia.

'Power failures,' said Nate. 'A couple of times we've lost power to the office and because we couldn't access the display screens, things got chaotic very quickly. So now, every afternoon when we've locked in all the detail for tomorrow's activities, I take a photo of the display screens. Just in case . . .'

Discussion questions

14.15 What barriers to effective communication are mentioned in this case? How were they undermining operations at Holiday Home Helpers?
14.16 Using the communication process depicted in **Figure 14.1**, explain how HHH employees use the online database system to communicate.
14.17 How is technology enhancing communication at HHH?

14.18 How is the new communication system affecting the company's knowledge management, customer service and use of employee input?

Endnotes

1 D. K. Berlo, *The Process of Communication* (New York: Holt, Rinehart & Winston, 1960), pp. 30–2.

2 L. Gawne**, '**Emoji Aren't Ruining Language: They're a Natural Substitute for Gesture', *The Conversation*, 5 July 2019.

3 D. K. Berlo, *The Process of Communication* (New York: Holt, Rinehart & Winston, 1960), p. 54.

4 See, for example, 'Get the Message: Communication is Key in Managing Change within Organizations – Yet Ensuring Its Effectiveness at Times of High Concerns Can Be Tricky', *Employee Benefits*, February 2002, pp. 58–60.

5 This section based on M. A. Hitt, J. S. Black, L. W. Porter and D. Hanson, *Management* (Sydney: Pearson Australia, 2007), p. 503.

6 'Get the Message: Communication is Key in Managing Change within Organizations – Yet Ensuring Its Effectiveness at Times of High Concerns Can Be Tricky', *Employee Benefits*, February 2002, p. 103.

7 L. R. Birkner and R. K. Birkner, 'Communication Feedback: Putting It All Together', *Occupational Hazards*, August 2001, p. 9.

8 L. Hilton, 'They Heard It through the Grapevine', *South Florida Business Journal*, 18 August 2000, p. 53.

9 Classic Concepts in Today's Organisations box based on S. Baker, 'Putting a Price on Social Connections', *BusinessWeek Online*, 8 April 2009; and K. Davis, 'Management Communication and the Grapevine', *Harvard Business Review*, September–October 1953, pp. 43–9.

10 L. Talley, 'Body Language: Read It or Weep', *HR Magazine*, July 2010, pp. 64–5; and M. Fulfer, 'Non-Verbal Communication: How to Read What's Plain as the Nose . . . Or Eyelid . . . Or Chin . . . On Their Faces', *Journal of Occupational Excellence*, Spring 2001, pp. 19–38.

11 L. Talley, 'Body Language: Read It or Weep', *HR Magazine*, July 2010, pp. 64–5; M. Fulfer, 'Non-Verbal Communication: How to Read What's Plain as the Nose . . . Or Eyelid . . . Or Chin . . . On Their Faces', *Journal of Occupational Excellence*, Spring 2001, pp. 19–38; and T. Fernsler, 'The Secrets and Science of Body Language', *Nonprofit World*, September/October 2010, p. 25.

12 P. Mornell, 'The Sounds of Silence', *Inc.*, February 2001, p. 117.

13 A. Warfield, 'Do You Speak Body Language?', *Training and Development*, April 2001, p. 60.

14 'Information Overload', *Australian Business Intelligence*, 16 April 2002.

15 S. I. Hayakawa, *Language in Thought and Action* (New York: Harcourt Brace Jovanovich, 1949), p. 292.

16 'Jargon Leaves Us Lost for Words', *Australian Business Intelligence*, 23 August 2002; and W. S. Mossberg, 'A Guide to the Lingo You'll Want to Learn for Wireless Technology', *Wall Street Journal*, 28 March 2002, p. B1.

17 'Gobbledygook Begone', *Workforce*, February 2002, p. 12; and 'Business-Speak', *Training and Development*, January 2002, pp. 50–2.

18 Adapted from 'Guidelines for Inclusive Language', Tasmanian Department of Education, **https://**

documentcentre.education.tas.gov.au, 2012, accessed 28 October 2017; Diversity Council of Australia, 'WordsAtWork: Building Inclusion through the Power of Language', https://www.dca.org.au, accessed 28 October 2017; and The Australian Institute of Aboriginal and Torres Strait Islander Studies, 'Guidelines for the Ethical Publishing of Aboriginal and Torres Strait Islander Authors and Research from Those Communities', **http://aiatsis.gov.au/sites/default/files/docs/asp/ethical-publishing-guidelines.pdf**, 2015, accessed 15 November 2017.

19 See, for example, M. K. Kozan, 'Subcultures and Conflict Management Styles', *Management International Review*, January 2002, pp. 89–106.

20 See also W. L. Adair, T. Okumura and J. M. Brett, 'Negotiation Behavior when Cultures Collide: The United States and Japan', *Journal of Applied Psychology*, June 2001, p. 371.

21 C. H. Tinsley, 'How Negotiators Get to Yes: Predicting the Constellation of Strategies Used across Cultures to Negotiate Conflict', *Journal of Applied Psychology*, August 2001, p. 583.

22 See, for example, S. P. Robbins and P. L. Hunsaker, *Training in Interpersonal Skills*, 4th edn (Upper Saddle River, NJ: Prentice Hall, 2006); M. Young and J. E. Post, 'Managing to Communicate, Communicating to Manage: How Leading Companies Communicate with Employees', *Organizational Dynamics*, Summer 1993, pp. 31–43; J. A. DeVito, *The Interpersonal Communication Book*, 6th edn (New York: HarperCollins, 1992); and A. G. Athos and J. J. Gabarro, *Interpersonal Behavior* (Upper Saddle River, NJ: Prentice Hall, 1978).

23 C. R. Rogers and R. E. Farson, *Active Listening* (Chicago: Industrial Relations Center of the University of Chicago, 1976).

24 Managing for Sustainability box based on S. H. DeKay, 'Use it Up, Wear it Out, Make it Do, Or Do Without: Communicating Sustainability in the Workplace', *Business Communication Quarterly*, March 2011, pp. 60–2; M. Watson, 'Doing Well By Doing Good: Ray C. Anderson as Evangelist for Corporate Sustainability', *Business Communication Quarterly*, March 2011, pp. 63–7; G. Hubbard, 'The Quality of the Sustainability Reports of Large International Companies: An Analysis', *International Journal of Management*, September 2011, pp. 824–48; and 'How to Get Jack and Jill to Turn off the Lights', *Context*, Winter 2010.

25 See, for example, R. R. Panko, *Business Data Networks and Communications*, 4th edn (Upper Saddle River, NJ: Prentice Hall, 2003); and 'Virtual Paper Cuts', *Workforce*, July 2000, pp. 16–18.

26 'Can I Have Your Attention Please?', *In the Black*, September 2010, pp. 40–3.

27 Australian Government Department of Health, 'Providing Health Care Remotely during COVID-19', https://www.health.gov.au/news/health-alerts/novel-coronavirus-2019-ncov-health-alert/coronavirus-covid-19-advice-for-the-health-and-aged-care-sector/providing-health-care-remotely-during-covid-19, 19 August 2020; and K. Fink 'Zoom 101 for Teachers', https://www.weareteachers.com/zoom-for-teachers, 27 March 2020.

28 M. Woods, 'Banning Email', in S. Robbins, D. DeCenzo, M. Coulter and M. Woods (eds), *Management: The Essentials*, 3rd edn (Melbourne: Pearson, 2016), p. 353.

29 M. Woods, 'Banning Email', in S. Robbins, D. DeCenzo, M. Coulter and M. Woods (eds), *Management: The Essentials*, 3rd edn (Melbourne: Pearson, 2016), p. 353; and D. Burkus, 'Some

Companies Are Banning Email and Getting More Done', *Harvard Business Review*, 8 June 2016.

30 J. Eckberg, 'Email: Messages Are Evidence', *Cincinnati Enquirer*, 27 July 2004.

31 M. Scott, 'Worker Email and Blog Misuse Seen as Growing Risk for Companies', *Workforce Management*, 20 July 2007.

32 K. Byron, 'Carrying Too Heavy a Load? The Communication and Miscommunication of Emotion by Email', *Academy of Management Review*, April 2008, pp. 309–27.

33 J. Marquez, 'Virtual Work Spaces Ease Collaboration, Debate among Scattered Employees', *Workforce Management*, 22 May 2006, p. 38; and M. Conlin, 'Email Is So Five Minutes Ago', *BusinessWeek*, 28 November 2005, pp. 111–12.

34 S. A. O'Brien, 'App Lets Workers Talk about Their Companies Anonymously', *CNN Business*, 12 February 2018; and M. Morse, 'Need to Complain about Your Boss? There's an App for That!', *HR Daily Advisor*, 3 February 2015.

35 J. S. Brown and P. Duguid, 'Balancing Act: How to Capture Knowledge Without Killing It', *Harvard Business Review*, May–June 2000, pp. 73–80; and J. Torsilieri and C. Lucier, 'How to Change the World', *Strategy and Business*, October 2000, pp. 17–20.

36 Voyages Indigenous Tourism Australia, 'About Us – FAQs', **www.voyages.com.au**, accessed 19 November 2017.

37 R. C. Ford and C. P. Heaton, 'Lessons from Hospitality that Can Serve Anyone', *Organizational Dynamics*, Summer 2001, pp. 30–47.

38 M. J. Bitner, B. H. Booms and L. A. Mohr, 'Critical Service Encounters: The Employee's Viewpoint', *Journal of Marketing*,

October 1994, pp. 95–106.

39 R. E. Walton and R. B. McKersie, *A Behavioural Theory of Labor Negotiations: An Analysis of a Social Interaction System* (New York: McGraw-Hill, 1965).

40 'Negotiation Skills Invaluable in Workplace', *Knight-Ridder/Tribune Business News*, 23 June 2002, p. 1.

41 Based on R. Fisher and W. Ury, *Getting to Yes: Negotiating Agreement without Giving in* (Boston: Houghton Mifflin, 1981); J. A. Wall, Jr and M. W. Blum, 'Negotiations', *Journal of Management*, June 1991, pp. 295–6; and M. H. Bazerman and M. A. Neale, *Negotiating Rationally* (New York: The Free Press, 1992).

42 J. V. Thill and C. L. Bovee, *Excellence in Business Communication*, 9th edn (Upper Saddle River, NJ: Prentice Hall, 2011), pp. 24–5.

43 J. V. Thill and C. L. Bovee, *Excellence in Business Communication*, 9th edn (Upper Saddle River, NJ: Prentice Hall, 2011), pp. 24–5.

44 J. V. Thill and C. L. Bovee, *Excellence in Business Communication*, 9th edn (Upper Saddle River, NJ: Prentice Hall, 2011), pp. 24–5.

45 J. V. Thill and C. L. Bovee, *Excellence in Business Communication*, 9th edn (Upper Saddle River, NJ: Prentice Hall, 2011), pp. 24–5.

46 'Lessons in How Not to Handle a Crisis', *Media Watch*, **www.abc.net.au**, 31 October 2016, accessed 26 October 2017.

47 Business Victoria, 'Creating a Safer Patient Journey through Innovation', **www.business.vic.gov.au/case-studies**, 24 August 2017, accessed 26 October 2017; Alcidion, 'Patient Flow System –

Featuring a Mobile EMR and a Bed Management System', https://www.alcidion.com.au/patient-flow-software, accessed 26 October 2017; and Business Victoria, 'Intelligent Patient Journey System', **https://www.youtube.com/watch?v=TxtSs4OC4-0&index=7&list=PL469BA8B7EC92444C**, 13 August 2014, accessed 26 October 2017.

Chapter **15** Controlling work and organisational processes

Fact or fiction?

Low employee turnover is a sign of a good manager.

Fiction

While high employee turnover is almost always dysfunctional, ***low turnover isn't necessarily a desirable goal***. An absence of turnover can mean that performance isn't being managed well enough. With an effective organisational control system, managers can identify and replace employees who are performing poorly. Low levels of employee turnover *can* be desirable, but only if the right people – those who are the weakest performers – are the ones leaving.

Controlling is the final step in the management process. Managers must monitor whether goals that were established as part of the planning process are being accomplished efficiently and effectively. That's what they do when they control. Appropriate controls can help managers look for specific performance gaps and areas for improvement, but as the opening case highlights, things don't always go as planned. That's why controlling is so important! In this chapter, we'll look at the fundamental elements of controlling, including the control process, the types of controls that managers can use, and contemporary issues in control.

Learning outcomes

15.1 Explain the nature and importance of control.
15.2 Describe the three steps in the control process.
15.3 Discuss the types of controls organisations and managers use.
15.4 Discuss contemporary issues in control.

Sailing into a storm of controversy

RUBY PRINCESS

When the *Ruby Princess* sailed into Sydney Harbour in March 2020, over 100 people on board were suffering from acute respiratory disease. But when COVID-19 controls failed, all 2,700 passengers were allowed to leave the ship without being screened or monitored. Over 900 of those passengers later tested positive for COVID-19, triggering the largest single-source infection cluster in Australia.

William Robinson/Alamy Stock Photo

At 3 am on 19 March 2020, the *Ruby Princess* cruise ship docked in Sydney Harbour at the end of an 11-day cruise to New Zealand; however, the drama was just beginning. Over the next four days, systemic failures in control processes on board the ship and used by port and health authorities resulted in the *Ruby Princess* becoming the centre of Australia's largest single-source infection cluster for COVID-19.[1]

By the time the ship docked, federal and state government authorities had established a range of controls for handling cruise ships arrivals. NSW Health guidelines said a ship on which 1 per cent or more of the passengers had 'a respiratory outbreak' would be classed as either medium or high risk, which meant a NSW Health team would have to board the ship before passengers could disembark. Cruise ships were also required to send NSW Health 'a full acute respiratory diseases log' 24 hours before they arrived in port, reporting any cases of respiratory disease on board. Additionally, on 14 March, Australia had announced a national directive that anyone

returning from overseas needed to self-isolate for 14 days. However, the directive included guidelines that cruise ship passengers who had travelled on a ‘low risk’ route could be allowed to disembark in Australia without having to self-isolate.

Despite these controls, when the *Ruby Princess* docked in Sydney, all 2,700 passengers were allowed to leave the ship and none were screened or monitored once they disembarked. Passengers were told they could travel once they left the ship, and international passengers were advised they could either self-isolate in Sydney or travel overseas immediately.

So, how did it all go so wrong? According to the subsequent Commission of Inquiry, the *Ruby Princess*’s acute respiratory log sent to NSW Health on 18 March reported that of the 3,795 people on board (passengers and crew), 104 (2.7 per cent) had presented to the ship’s medical centre with acute respiratory disease and 26 (0.94 per cent) had presented with ‘influenza-like illness’. Subsequent inquiries revealed that the log was not up to date when it was sent. At 4.40 pm that day, an expert panel of NSW Health officials, taking a decision that was later described as ‘[as]inexplicable as it is unjustifiable’, classified the ship as ‘low risk’ on the grounds that it had only visited New Zealand. Ironically, the *Ruby Princess* had shortened its scheduled stop in New Zealand because the country closed its borders to prevent the spread of COVID-19.

By the time the ship docked in Australia, COVID-19 test swabs had been taken for 13 passengers on board and were awaiting testing. It later transpired that, according to guidelines

issued by NSW Health on 10 March, 120 passengers on the *Ruby Princess* actually met the definition of a ‘suspect’ case for COVID-19 and should have been tested, but were not. The 13 test swabs were transported to the lab by the cruise ship company and were expected to have been tested by 4 pm that day, but were not because the laboratory technician ‘didn’t realise they were cruise ship samples and they were not tested as a priority’. The results were returned to the *Ruby Princess* at 8 am on 20 March, with officials announcing that two passengers and one crew member had been confirmed as cases of COVID-19. The following day, NSW Health corrected its advice that the ship’s passengers didn’t need to self-isolate and the scramble to contact trace them began. Over 900 people from the *Ruby Princess* later tested positive for COVID-19, and 28 died. Another 135 cases have been directly linked to *Ruby Princess* passengers, 73 of which were health-care workers infected when the admission of two passengers to a hospital in northern Tasmania sparked an infection cluster.

What is control, and why is it important?

Learning outcome 15.1 Explain the nature and importance of control.

Control is the management function that involves monitoring activities to ensure that they're being accomplished as planned and correcting any significant deviations. Managers can't really know whether their units are performing properly until they've evaluated what activities have been done and have compared the actual performance with the desired standard. An effective control system ensures that activities are completed in ways that lead to the attainment of the organisation's goals. The effectiveness of a control system is determined by how well it facilitates goal achievement. The more a control system helps managers achieve their organisation's goals, the better it is.

control

Management function that involves monitoring activities to ensure that they're being accomplished as planned and correcting any significant deviations

Why is control important?

Planning can be done, an organisational structure created to facilitate efficient achievement of goals, and employees motivated through effective leadership. But there's no assurance that activities are going as planned and that the goals employees and managers are working towards are, in fact, being attained. Control is important, therefore, because it's the only way that managers know whether organisational goals are being met and if not, the reasons why. The value of the control function can be seen in three specific areas:

- **Planning.** In the chapter on planning, we described goals, which provide specific direction to employees and managers, as the foundation of planning. However, just stating goals or having employees accept them doesn't guarantee that the necessary actions to accomplish those goals have been taken. As the old saying goes, 'The best-laid plans often go awry.' The effective manager follows up to ensure that what employees are supposed to do is, in fact, being done and goals are being achieved. As the final step in the management process, controlling provides the critical link back to planning (see **Figure 15.1**). If managers didn't control, they'd have no way of knowing whether their goals and plans were being achieved and what future actions to take.
  Figure 15.1 Planning–controlling link

Goals
Objectives
Strategies
Plans
ORGANISING
Structure
Human resource management
LEADING
Motivation
Leadership
Communication
Individual and group behaviour
CONTROLLING
Standards
Measurements
Comparison
Actions

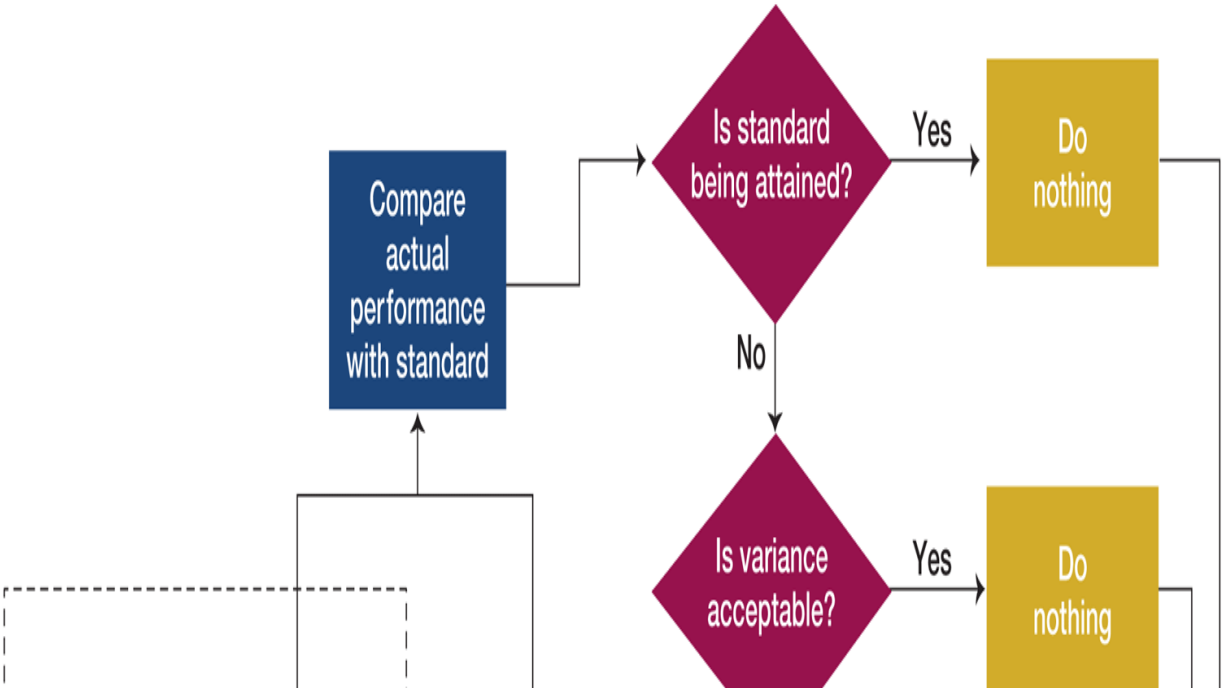
- **Empowering employees.** The second reason controlling is important is because of employee empowerment. Many managers are reluctant to empower their employees because they fear something will go wrong for which they would be held responsible. But an effective control system can provide information and feedback on employee performance and minimise the chance of potential problems.
- **Protecting the workplace**. The final reason that managers control is to protect the organisation and its assets.[2] Organisations face threats from natural disasters, financial pressures and scandals, workplace violence, supply chain disruptions and security breaches. Managers must protect organisational assets in the event that any of these should happen. Comprehensive controls and backup plans will help minimise work disruptions.

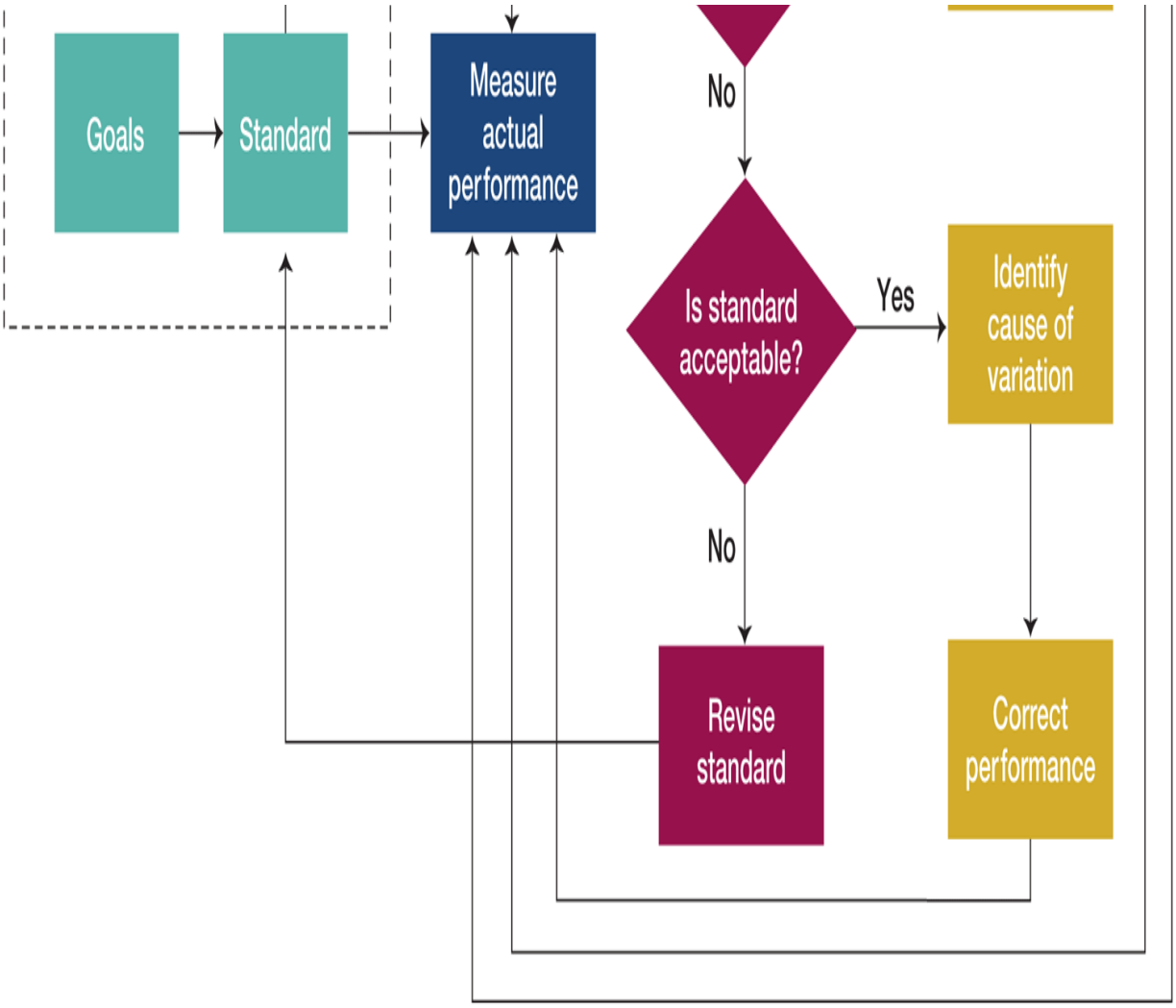
What takes place as managers control?

Learning outcome 15.2 Describe the three steps in the control process.

The **control process** is a three-step process of (1) measuring actual performance, (2) comparing actual performance against a standard, and (3) taking managerial action to correct deviations or to address inadequate standards (see **Figure 15.2**). The control process assumes that performance standards already exist, and they do. They're the specific goals created during the planning process.

Figure 15.2 The control process




Goals
Standard
Measure actual performance
No
Is standard acceptable?
Yes
Identify cause of variation
No
Revise standard
Correct performance

‘Bailout’ was the magic word that cost Domino’s Pizza 11,000 free pizzas. The company had prepared an internet coupon for an ad campaign that was considered, but not approved. However, when someone apparently typed ‘bailout’ into a Domino’s promotional code window and found it was good for a free medium pizza, the word spread like wildfire on the Web. Somewhere, somehow, a lack of control cost the company big time.[3]

alex.zvar93/Shutterstock.com

control process

A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations

Specific goals ARE the performance standards.

What is ‘measuring’?

To determine actual performance, a manager must first get information about it. Thus, the first step in control is measuring.

How do managers measure?

Four common sources of information frequently used to measure actual performance include personal observation, statistical reports, oral reports and written reports. Each has its own particular strengths and weaknesses, but using a combination of them increases both the number of input sources and the probability of receiving reliable information.

Personal observation provides first-hand, intimate knowledge of the actual activity – information that isn’t filtered through others. It permits intensive coverage because minor as well as major performance activities can be observed, and it provides opportunities for the manager to read between the lines.

Management by walking around (MBWA) is a phrase used to describe when a manager is out in the work area, interacting directly with employees and exchanging information about what’s going on. Management by walking around can pick up factual omissions, facial expressions and tones of voice that may be missed by other sources.

Unfortunately, in a time when quantitative information suggests objectivity, personal observation is often considered an inferior information source. It is subject to perceptual biases; what one manager sees, another might not. Personal observation also consumes a good deal of time. Finally, this method suffers from obtrusiveness. Employees might interpret a manager's overt observation as a lack of confidence or a sign of mistrust.

management by walking around (MBWA)
When a manager is out in the work area interacting with employees

The widespread use of computers has led managers to rely increasingly on *statistical reports* for measuring actual performance. This measuring device, however, isn't limited to computer outputs. It also includes graphs, bar charts and numerical displays of any form that managers can use for assessing performance. Although statistical information is easy to visualise and effective for showing relationships, it provides limited information about an activity. Statistics report on only a few key areas and may often ignore other important, often subjective, factors.

Information can also be acquired through *oral reports* – that is, through conferences, meetings, one-to-one conversations or

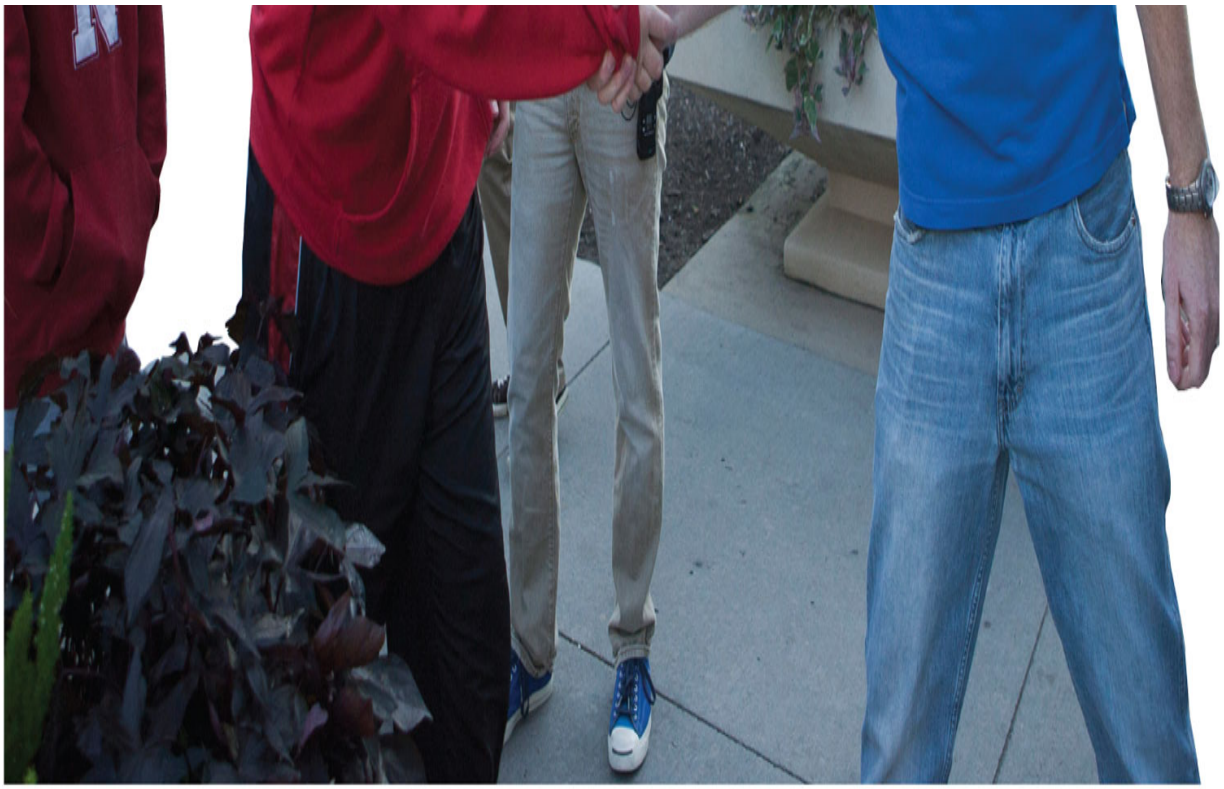
telephone calls. In employee-oriented organisations where employees work closely together, this approach may be the best way to keep tabs on work performance. For example, at the Ken Blanchard Companies in Escondido, California, managers are expected to hold one-on-one meetings with each of their employees at least once every two weeks.[4] The advantages and disadvantages of this method of measuring performance are similar to those of personal observation. Although the information is filtered, it is fast, allows for feedback, and permits expression and tone of voice as well as words themselves to convey meaning. Historically, one of the main drawbacks of oral reports has been the problem of documenting information for later reference. However, our technological capabilities have progressed in the past couple of decades to the point where oral reports can be efficiently taped and become as permanent as if they were written.

Actual performance may also be measured by *written reports*. Like statistical reports, they are slower yet more formal than first-hand or second-hand oral measures. This formality also often gives them greater comprehensiveness and conciseness than found in oral reports. In addition, written reports are usually easy to catalogue and reference.

Given the varied advantages and disadvantages of each of these four measurement techniques, managers should use all four for comprehensive control efforts.

What do managers measure?

What managers measure is probably *more critical* to the control process than *how* they measure. Why? The selection of the wrong criteria can result in serious dysfunctional consequences. Besides, what we measure determines, to a great extent, what people in the organisation will attempt to excel at.[5] For example, assume that your instructor has required a total of 10 writing assignments from the exercises at the end of each textbook chapter. When you ask them about this, you learn that the writing assignments are for your own enlightenment and don't affect your grade for the course; grades are solely determined by how well you perform on the three exams. We predict that you would, not surprisingly, exert most, if not all, of your effort towards doing well on the three exams.



Greeting customers with a handshake, a smile and a warm welcome is a practice Apple stores adopted from Ritz-Carlton, the luxury hotel chain known as the gold standard of customer service. Apple benchmarked with the Ritz-Carlton because it wants its employees to excel at customer service that leads to customer loyalty.

Nati Harnik/ASSOCIATED PRESS

Some control criteria are applicable to any management situation. For example, because all managers, by definition, direct the activities of others, criteria such as employee satisfaction or turnover and absenteeism rates can be measured. Most managers have budgets for their area of responsibility set in monetary units (dollars, euros, yen, and so on). Keeping costs within budget is, therefore, a fairly common control measure. However, any comprehensive control

system needs to recognise the diversity of activities among managers. For example, a production manager in a shoe manufacturing plant might use measures of the quantity of shoes produced per day, shoes produced per labour hour or percentage of rejects returned by customers. A team manager in a call centre might consider cost efficiency, the length of time customers are on hold and customer satisfaction ratings. Marketing managers often use measures such as percentage of market held, number of customer visits per salesperson or number of customer impressions per advertising medium.

As you might imagine, some activities are more difficult to measure in quantifiable terms. It’s more difficult, for example, for a manager to measure the performance of a medical researcher than of a person who sells life insurance. But most activities can be broken down into objective segments that allow for measurement. The manager needs to determine what value a person, department or unit contributes to the organisation and then convert the contribution into standards.

Managing for diversity and inclusion: Using controls to increase diversity

The Australian Securities Exchange Council requires that companies listed on the Australian Securities Exchange (ASX) report their aims, targets, policies and accomplishments regarding the promotion of gender diversity.[6] Under the guidelines, companies are specifically required to report:

- the proportions of men and women on the board of directors, in senior executive positions and across the company as a whole
- the company's diversity policy
- measurable objectives for achieving gender diversity
- company progress towards achieving diversity objectives
- the company's Gender Equality Indicators, if it is a company to whom the *Workplace Gender Equality Act* applies.

Companies that don't conform with the council's requirements are also required to provide an 'if not why not' explanation of how and why they don't conform.

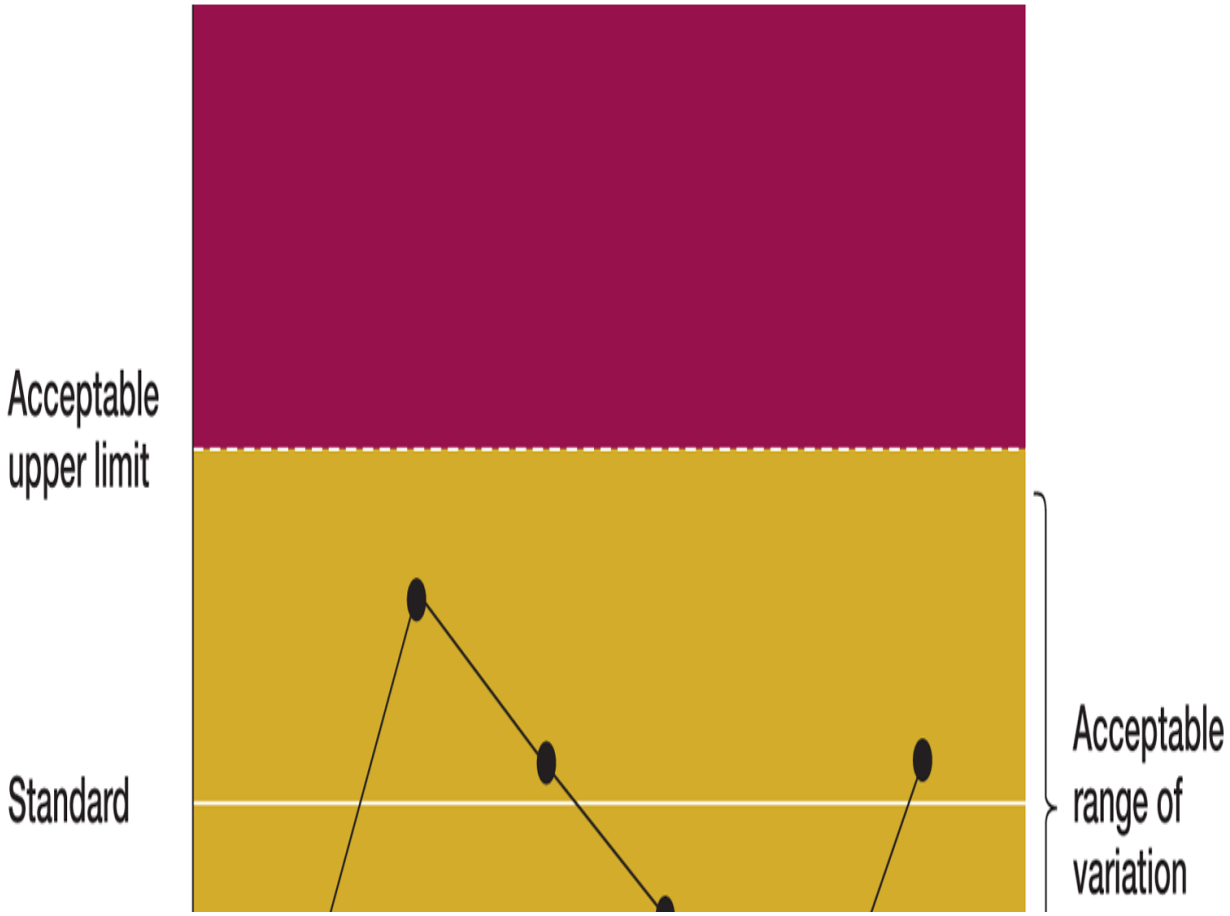
> Imposing this type of external control does appear to be helping companies increase and better support workforce diversity. A recent KPMG analysis of listed companies' compliance with the guidelines found that flexible workplace arrangements, diversity recruitment, education about harassment, bullying, discrimination, diversity awareness and unconscious bias, domestic violence support policies, and mentoring and support programs were commonly used by listed companies of all sizes. Moreover, the report noted that 90 per cent of listed companies had now gone beyond supporting gender diversity to also explicitly support age and ethnic diversity, suggesting that support for gender diversity will generate positive flow-on effects for other forms of diversity because initiatives such as unconscious bias training and flexible work practices help many types of employees.

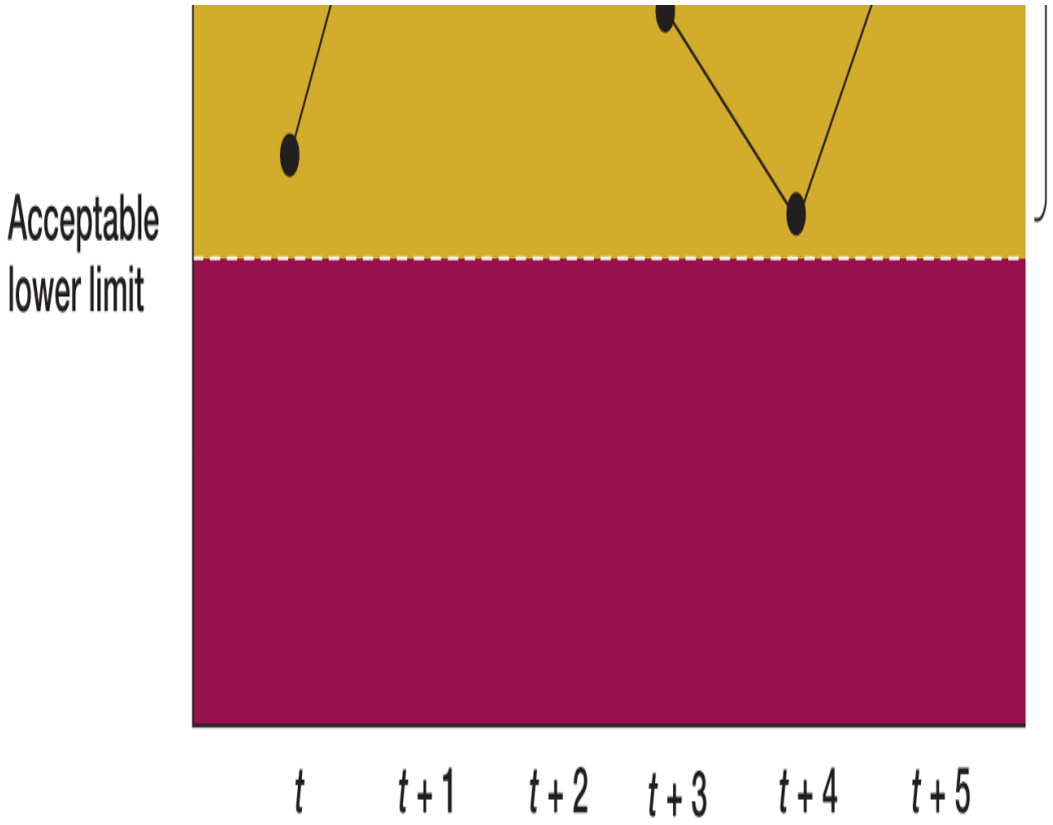
Most jobs and activities can be expressed in tangible and measurable terms. When a performance indicator cannot be stated in quantifiable terms, managers should look for and use subjective measures. Certainly, subjective measures have significant limitations. Still, they are better than having no standards at all and ignoring the control function. If an activity is important, the excuse that it's difficult to measure is inadequate. In such cases, managers should use subjective performance criteria. Of course, any analysis or decisions made on the basis of subjective criteria should recognise the limitations of the data.

How do managers compare actual performance to planned goals?

The comparing step determines the variation between actual performance and the standard. Although some variation in performance can be expected in all activities, it's critical to determine an acceptable **range of variation** (see **Figure 15.3**). Deviations outside this range need attention. Let's work through an example.

Figure 15.3 Acceptable range of variation





range of variation

The acceptable parameters of variance between actual performance and a standard

Jeremy Green is a sales manager for Green Earth Gardening Supply, a distributor of specialty plants and seeds in New South Wales. Jeremy prepares a report during the first week of each month that describes sales for the previous month, classified by product line. **Table 15.1** displays both the sales goals (standard) and actual

sales figures for the month of June. After looking at the numbers, should Jeremy be concerned? Sales were a bit higher than originally targeted, but does this mean there were no significant deviations? That depends on what Jeremy thinks is *significant* – that is, outside the acceptable range of variation. Even though overall performance was generally quite favourable, some product lines need closer scrutiny. For example, if sales of heirloom seeds, flowering bulbs and annual flowers continue to be over what was expected, Jeremy might need to order more product from nurseries to meet customer demand. Because sales of vegetable plants were 15 per cent below goal, Jeremy may need to run a special on them. As this example shows, both over-variance and under-variance may require managerial attention, which is the third step in the control process.

Table 15.1 Example of determining significant variation

What managerial action can be taken?

> Managers can choose among **three possible courses of action**:
>
> - Do nothing (self-explanatory).
> - Correct actual performance.
> - Revise the standards.

How do you correct actual performance?

Depending on what the problem is, a manager could take different corrective actions. For example, if unsatisfactory work is the reason for performance variations, the manager could correct it using training programs, disciplinary action, changes in compensation practices and so on. One decision that a manager must make is whether to take **immediate corrective action**, which corrects problems at once to get performance back on track, or to use **basic corrective action**, which looks at how and why performance deviated before correcting the source of deviation. It's not unusual for managers to rationalise that they don't have time to find the source of a problem (basic corrective action) and continue to perpetually 'put out fires' with immediate corrective action. Effective managers analyse deviations

and, if the benefits justify it, take the time to pinpoint and correct the causes of variance.

immediate corrective action
: Corrective action that addresses problems at once to get performance back on track

basic corrective action
: Corrective action that looks at how and why performance deviated before correcting the source of deviation

How do you revise the standard?

It's possible that the variance was a result of an unrealistic standard – too low or too high a goal. In such cases, it's the standard that needs corrective action, not the performance. If performance consistently exceeds the goal, then a manager should look at whether the goal is too easy and needs to be raised. On the other hand, managers must be cautious about revising a standard downwards. It's natural to blame the goal when an employee or a team falls short.

For example, students who get a low score on a test often say the test was too hard. Rather than accept the fact that their performance was inadequate, they will argue that the standards are unreasonable. Likewise, salespeople who don’t meet their monthly quota often want to blame what they think is an unrealistic quota. The point is that when performance isn’t up to par, don’t immediately blame the goal or standard. If you believe the standard is realistic, fair and achievable, tell employees that you expect future work to improve, and then take the necessary corrective action to help make that happen.

What should managers control?

Learning outcome 15.3 Discuss the types of controls organisations and managers use.

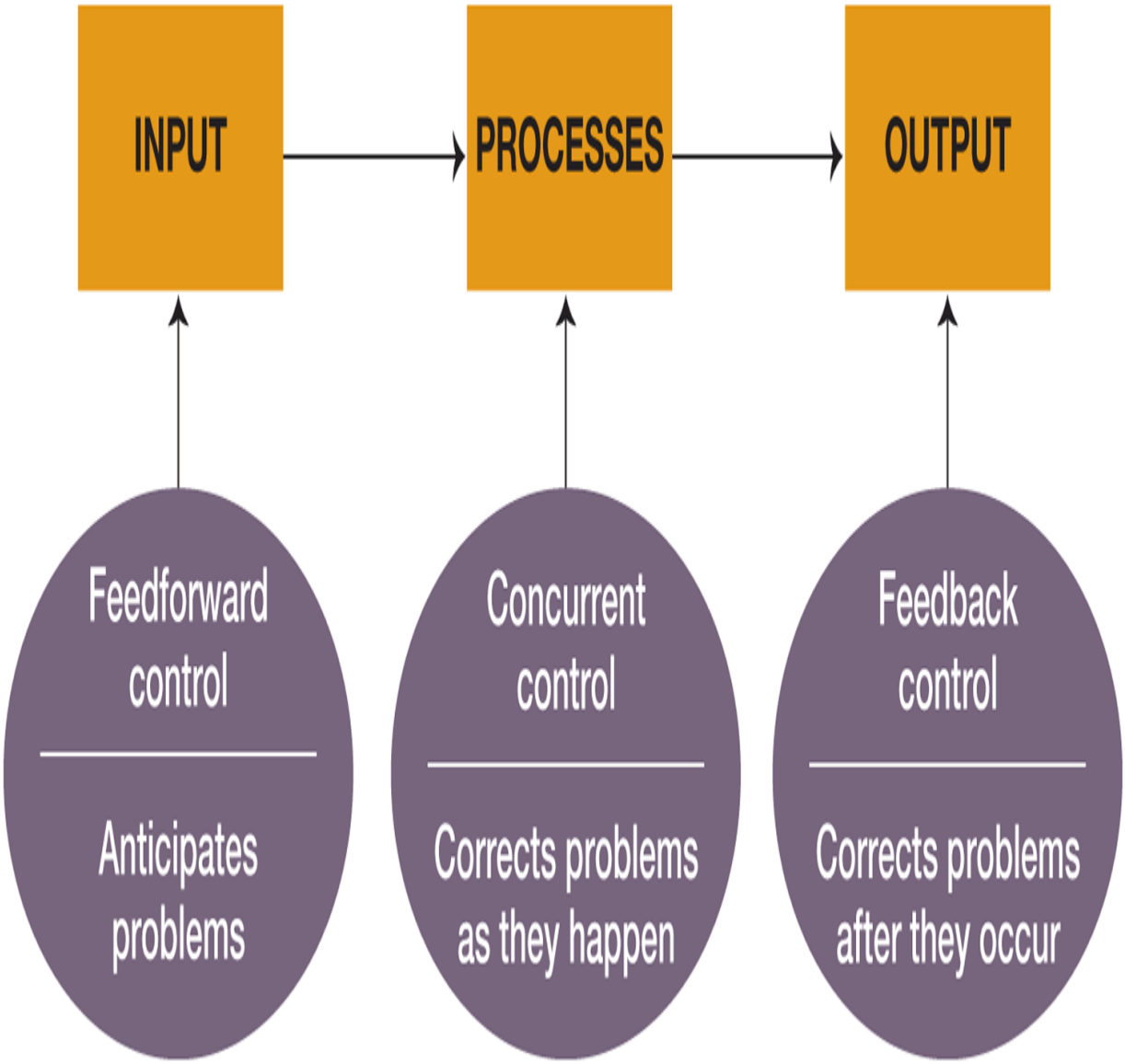
Cost efficiency. The length of time customers are kept on hold. Customers being satisfied with the service provided. These are just a few of the important performance indicators that executives in the intensely competitive call-centre service industry measure. To make good decisions, managers in this industry want and need this type of information so they can control work performance.

How do managers know what to control? In this section, we're first going to look at the decision of *what* to control in terms of when control takes place. Then, we're going to discuss some different areas in which managers might choose to establish controls.

When does control take place?

Management can implement controls *before* an activity commences, *during* the activity or *after* the activity has been completed. The first type is called feedforward control, the second is concurrent control and the last is feedback control (see **Figure 15.4**).

Figure 15.4 When does control take place?



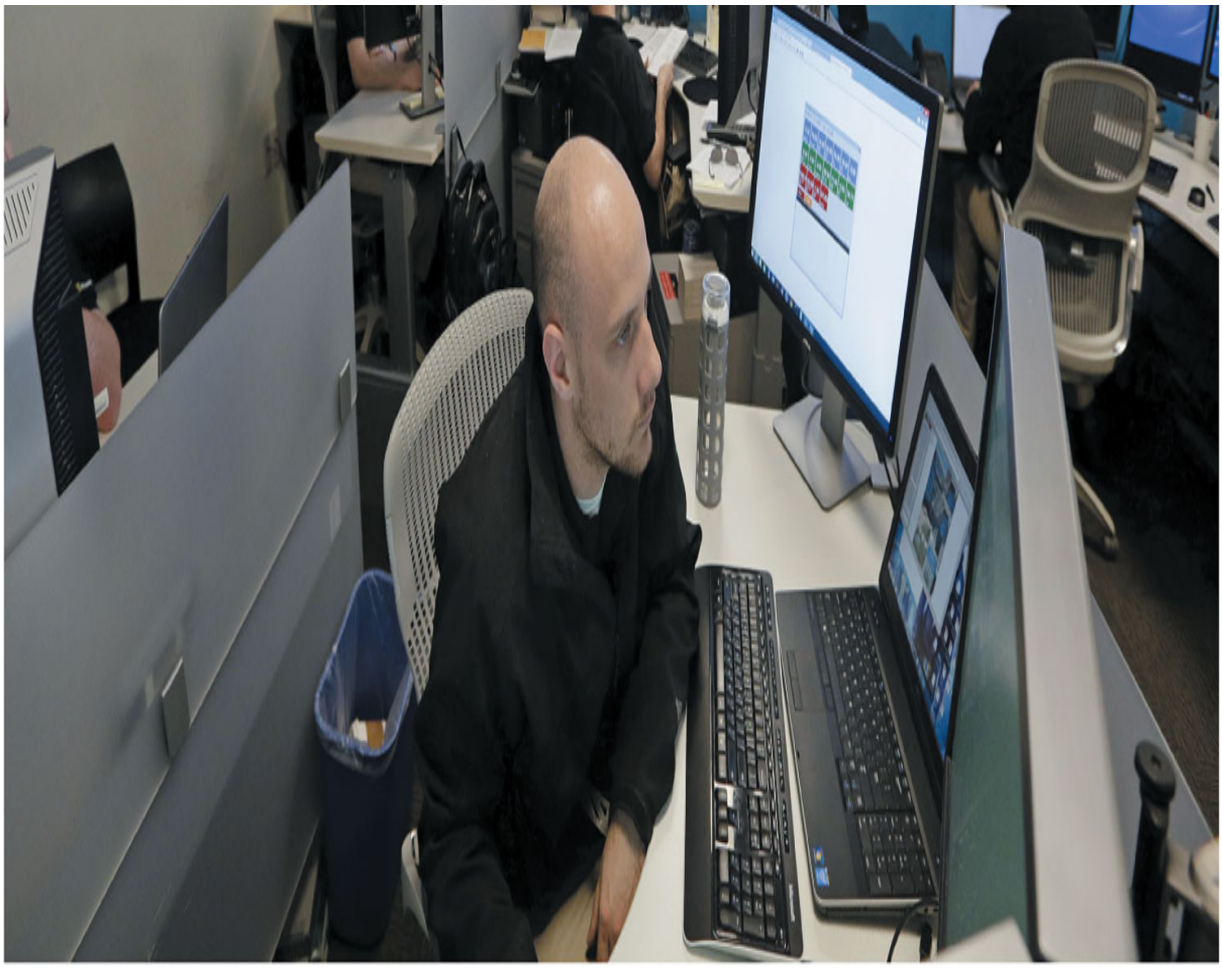
What is feedforward control?

The most desirable type of control – **feedforward control** – prevents problems because it takes place before the actual activity.[7] For example, when McDonald's began doing business in Moscow, it sent company quality control experts to help Russian farmers learn techniques for growing high-quality potatoes and to help bakers learn

processes for baking high-quality breads. Why? McDonald's demands consistent product quality no matter the geographical location. They want French fries in Moscow to taste like those in Perth. Still another example of feedforward control is the scheduled preventive maintenance programs on aircraft done by the major airlines. These schedules are designed to detect, and hopefully to prevent, structural damage that might lead to an accident.

feedforward control

Control that takes place before a work activity is done



Microsoft uses concurrent control to track its energy usage. Shown here at its operations centre, Ray Nichols monitors real-time data on heating, cooling and other systems in the company's buildings that will help Microsoft achieve its goals of improving its carbon footprint and reducing its impact on the environment.

Elaine Thompson/AP Images

The key to feedforward controls is taking managerial action *before* a problem occurs. That way, problems can be prevented rather than having to correct them after any damage – poor-quality products, lost customers, lost revenue, and so on – has already been done.

However, these controls require timely and accurate information that isn't always easy to get. Thus, managers frequently end up using the other two types of control.

When is concurrent control used?

Concurrent control, as its name implies, takes place while a work activity is in progress. For example, the director of business product management at Google and his team keep a watchful eye on one of Google's most profitable businesses – online ads. They watch 'the number of searches and clicks, the rate at which users click on ads, the revenue this generates – everything is tracked hour by hour, compared with the data from a week earlier and charted'.[8] If they see something that's not working particularly well, they fine-tune it.

concurrent control
: Control that takes place while a work activity is in progress

> Fifty-five per cent of employees say that **micromanaging decreases their productivity**.[9]

Technical equipment (such as computers and computerised machine controls) can be designed to include concurrent controls. For example, you've probably experienced this with word-processing

software that alerts you to a misspelled word or incorrect grammatical usage. Also, many organisational quality programs rely on concurrent controls to inform workers whether their work output is of sufficient quality to meet standards.

The best-known form of concurrent control, however, is direct supervision. All managers can benefit from using concurrent control because they can correct problems before they become too costly. MBWA, which we described earlier in this chapter, is a great way for managers to do this.

In what areas might managers need controls?

Most organisations consist of countless activities taking place in different locations and functional areas of the organisation. Controlling it all is complicated! Let's look at some of the specific areas and control tools that managers can use.

How is an organisation's information controlled?

Managers deal with information controls in two ways: (1) as a tool to help them control other organisational activities, and (2) as an organisational area they need to control.

Managers need the right information at the right time and in the right amount to help them *monitor and measure organisational activities*. In measuring actual performance, managers need information about what is happening within their area of responsibility and about the standards in order to be able to compare actual performance with the standard. They also rely on information to help them determine whether deviations are acceptable. Finally, they rely on information to help them develop appropriate courses of action. Most of the

information tools that managers use come from the organisation's management information system.

A **management information system (MIS)** provides managers with needed information on a regular basis, usually through computer-supported applications. Organisations today are like well-stocked libraries. They contain a huge amount of data that need to be available to the right people when they need it. A MIS collects data (raw, unanalysed facts) and turns them into relevant information (processed and analysed data) for managers to use.

management information system (MIS)
A system used to provide management with needed information on a regular basis

Because information is critically important to everything an organisation does, managers must have comprehensive and secure controls in place to *protect that information*. Such controls can range from data encryption to system firewalls to data backups and other techniques.[10] Problems can lurk in places that an organisation might not even have considered, such as search engines. Sensitive, defamatory, confidential or embarrassing organisational information has found its way into search engine results. Equipment such as laptop computers and even radio-frequency identification (RFID) tags

are vulnerable to viruses and hacking. Needless to say, information controls should be monitored regularly to ensure that all possible precautions are in place to protect important information.

How do managers keep track of finances?

Financial controls help managers ensure that sufficient cash is available to pay ongoing expenses, that debt levels haven't become too high and that assets are being used productively. **Table 15.2** summarises some of the most popular financial ratios that managers will analyse to get feedback on the organisation's financial position. Because you've probably studied these ratios in your accounting or finance courses, or will in the near future, we won't elaborate on how they're calculated. We mention them here to remind you that managers use such ratios as internal control tools.

Table 15.2 Popular financial ratios

Budgets are another type of financial control tool that are used for planning and controlling. When a budget is formulated, it's a planning tool because it indicates which work activities are important and what and how many resources should be allocated to those activities. But budgets are also used for controlling since they provide managers with quantitative standards against which to measure and compare resource consumption. If deviations are significant enough to require action, the manager examines what has happened and tries to uncover why. With this information, necessary action can be taken. For example, if you use a personal budget for monitoring and

controlling your monthly expenses, you might find that one month your miscellaneous expenses were higher than you had budgeted for. At that point, you might cut back spending in another area or work extra hours to earn more income.

Effectively controlling financial activity and business expenses is crucial for managing organisational cash flows and profitability; these days, digital technology can help.[11] Smartphone apps can be used to link digital systems to enable quicker and more accurate recording and analysis of financial activity. One app enables salespeople on the road to upload receipts for expenses directly into company systems, eliminating the need to fill out expense reports. Another, used by Naomi Simson, founder of gift-giving company RedBalloon, generates a dashboard of metrics to provide real-time feedback about RedBalloon's sales activity and business costs such as the average sale price, average margin on sales, and commissions being paid to suppliers. This helps her track expenditure, manage cash flow and understand the organisation's activities because, as Naomi explains, 'you can feel the rhythm of the business'. Technological systems such as cloud computing and electronic banking mean organisations can link their business and banking systems to enhance expense management, record keeping and financial planning. For example, by using electronic banking and expense management systems managers can review expenditures over a specified amount, or paid offshore, or to specified contractors or merchants, which enhance planning and control by providing new insights into the organisation's business activities.

What is the balanced scorecard approach to control?

The **balanced scorecard** approach is a way to evaluate organisational performance from more than just the financial perspective.[12] Traditionally, a balanced scorecard looked at four areas that contribute to a company's performance: financial, customer, internal processes and people/innovation/growth assets.[13] These days, however, many organisations also include criteria related to the environment and/or the community.[14] According to this approach, managers should develop goals in each of the four areas and then measure whether the goals are being met.

> ***balanced scorecard***
>
> A performance measurement tool that looks at more than just the financial perspective

Although a balanced scorecard makes sense, managers tend to focus on areas that drive their organisation's success and use scorecards that reflect those strategies.[15] For example, if strategies are customer centred, then the customer area is likely to get more attention than the other three areas. Yet, you can't focus on measuring only one performance area because others are affected

as well. For example, at IBM Global Services in the United States, managers developed a scorecard around an overriding strategy of customer satisfaction. However, the other areas (financial, internal processes and people/innovation/growth) support that central strategy. The division manager described it as follows: 'The internal processes part of our business is directly related to responding to our customers in a timely manner, and the learning and innovation aspect is critical for us since what we're selling our customers above all is our expertise. Of course, how successful we are with those things will affect our financial component.'[18]

Why is feedback control so popular?

The most popular type of control relies on feedback. In **feedback control**, the control takes place *after* the activity is done. The main problem with this kind of control is that by the time a manager has the information, the problems have already occurred, leading to waste or damage. However, in many work areas (the financial area being one example), feedback is the only viable type of control.

feedback control

Control that takes place after a work activity is done

Managing for sustainability: The triple bottom line of sustainability

Managing for sustainability involves finding ways to measure, evaluate, compare and monitor the impact of an organisation's activities. This has led many organisations to use a triple bottom line (TBL) approach to measure the social, economic and environmental consequences of their actions.[16] The TBL concept was originally developed in the field of economics to expand notions of performance from the traditional single 'bottom line' of profitability to also consider social and environmental achievements, and to provide a mechanism to measure and compare impacts upon all three bottom lines. A TBL approach to sustainability helps organisations demonstrate how they have measured and evaluated sustainability considerations. For example, the TBL measures used in sustainability standards and certification systems such as the Rainforest Alliance and Fairtrade demonstrate the standards that the certified organisations have met. But TBL measures, like other control systems, can lead people to treat indicators as an end rather than a means and encourage a focus on 'generating the right indicators and then tailoring the solution in order to get the indicators back on track'.[17] So,

managers need to be aware of the assumptions and impacts of TBL approaches so that they understand how to use them accurately, appropriately and effectively.

Feedback controls do have two advantages.[19] First, feedback gives managers meaningful information on how effective their planning efforts were. Feedback that shows little variance between standard and actual performance indicates that the planning was generally on target. If the deviation is significant, a manager can use that information to formulate new plans. Second, feedback can enhance motivation. People want to know how well they're doing, and feedback provides that information.

What contemporary control issues do managers confront?

Learning outcome 15.4 Discuss contemporary issues in control.

Today’s workplaces present considerable control challenges for managers. From monitoring employees’ computer usage at work to minimising theft and dysfunctional conflict, managers need controls to ensure that work can be done efficiently and effectively as planned.

Using feedback to control employee performance

Ask a manager about the performance feedback they give employees and you're likely to get a qualified answer. If the feedback is positive, it's likely to be given promptly and enthusiastically. Negative feedback is often treated differently[20] because, like most of us, managers fear offending the receiver or having to deal with their emotions. The result is that negative feedback is often avoided, delayed or substantially distorted. But both kinds of feedback can be valuable for controlling employee performance.

Positive feedback is more readily and accurately perceived than negative feedback. Positive feedback fits what most people wish to hear and already believe about themselves. Furthermore, whereas positive feedback is almost always accepted, negative feedback often meets resistance because people want to hear good news and block out the rest.[21] This means that you need to be aware of potential resistance and learn to use negative feedback in situations in which it's most likely to be accepted.[22] Research indicates that negative feedback is most likely to be accepted when it comes from a credible source, is objective and is supported by hard data – numbers, specific examples, and the like. Subjective impressions carry weight only when they come from a person with high status and

credibility.[23] We provide more pointers about providing feedback to employees later in this chapter.

The Better Cotton Initiative is a global organisation working with farmers, manufacturers and retailers to establish global standards and processes for sustainable cotton production. Its Better Cotton Standard System uses training and quality assurance programs to help growers continuously improve the quality of their cotton and the sustainability of their production approaches, and then uses ‘chain of custody’ programs to help manufacturers and retailers source cotton produced to the desired standard. Around 22 per cent of global cotton production is now done under the Better Cotton Standard System.[24]

Andriy Blokhin/Shutterstock.com

Do controls need to be adjusted for cultural differences?

The concepts of control that we've discussed are appropriate for organisational units that aren't geographically distant or culturally distinct. But what about global organisations? Would control systems be different, and what should managers know about adjusting controls for national differences?

Methods of controlling employee behaviour and operations can be quite different in different countries. In fact, the differences in organisational control systems of global organisations are primarily in the measurement and corrective action steps of the control process. In a global corporation, for example, managers of foreign operations tend not to be closely controlled by the home office if for no other reason than that distance keeps managers from being able to observe work directly. Because distance creates a tendency for formalised controls, the home office of a global company often relies on extensive, formal reports for control. The global company may also use information technology to control work activities. For example, Seven and i Holdings (Japan's biggest retail conglomerate and parent company of 7-Eleven) uses automated cash registers not only to record sales and monitor inventory but also to schedule tasks for store managers and to track their use of the built-in analytical

graphs and forecasts. If managers don't use them enough, they're told to increase their activities.[25]

Technology's impact on control is most evident in comparisons of technologically advanced nations with countries that aren't as technologically advanced. Organisations in technologically advanced nations such as Australia, the United States, Japan, Canada, the United Kingdom and Germany use indirect control devices – particularly computer-related reports and analyses – in addition to standardised rules and direct supervision to ensure that activities are going as planned. In less technologically advanced countries, direct supervision and highly centralised decision making are the basic means of control.

Also, constraints on what corrective action managers can take may affect managers in foreign countries because laws in some countries don't allow managers the option of closing facilities, laying off employees or bringing in a new management team from outside the country. Finally, another challenge for global companies in collecting data is comparability. For example, a company's manufacturing facility in Vietnam might produce the same products as a facility in New Zealand. However, the Vietnamese facility might be much more labour intensive than its New Zealand counterpart (to take advantage of lower labour costs in Vietnam). If top-level executives were to control costs by, for example, calculating labour costs per unit or output per worker, the figures wouldn't be comparable. Managers in global companies must address these types of global control challenges.

What challenges do managers face in controlling the workplace?

Controlling the use of workplace technology

What can your employer find out about you and your work? You might be surprised at the answers! Employers can (and do), among other things, read your email (even those marked ‘personal’ or ‘confidential’), monitor your work by computer, store and review computer files, and track your whereabouts in a company vehicle. In fact, some 26 per cent of companies have fired workers for misusing the internet, another 25 per cent have terminated workers for email misuse, and 6 per cent have fired employees for misusing office phones.[26]

Managers feel that they need to monitor what employees are doing because cyberloafing is thought to cost billions of dollars in lost work productivity annually. **Cyberloafing** refers to using employer-provided internet access and computer technology (e.g. laptops and email systems) to engage in personal activities such as recreational on-the-job web surfing. For example, in a study of internet use in the workplace, nearly 88 per cent of employees surveyed admitted surfing non-work-related websites and 82 per cent sent non-work-

related emails during working hours.[27] Watching online video has become an increasingly serious problem, because of the time being wasted by employees and because it clogs already strained corporate computer networks.[28]

> ***cyberloafing***
>
> Using employer-provided internet access and computer technology (e.g. laptops and email systems) to engage in personal activities

Another reason that managers monitor employee email and computer usage is that they don't want to risk being fined for creating a workplace environment in which employees could be offended by offensive messages or inappropriate images displayed on a colleague's computer screen. Concerns about racial or sexual harassment are one reason companies might want to monitor or keep backup copies of all email. Electronic records can help establish what actually happened so managers can react quickly.[29]

Finally, managers want to ensure that company secrets aren't being leaked.[30] In addition to typical email and computer usage, companies are monitoring email, messaging, blogs and social media outlets such as Facebook, Instagram and LinkedIn. Managers need to be certain

that employees are not, even inadvertently, passing information on to others who could use that information to harm the company.

Because of the potentially serious costs, and given the fact that many jobs now entail the use of smartphones, computers and tablets, many companies have workplace monitoring policies. Such policies should control employee behaviour in a non-demeaning way, and employees should be informed about those policies.

A question of ethics: Workplace surveillance

These days, managers can't physically observe everything their employees do. But technology is providing new ways to monitor employees' activities and where they are doing them. GPS technology can track employee movements and routes. Keystroke-monitoring software provides feedback about when and how long people are actively using their work computers. All at the touch of a button.

Discuss this

- Is surveillance less invasive or more acceptable when it's a computer watching, instead of a human?
- How could organisations make sure they're being ethical in monitoring employees?

Controlling employee theft

Up to 85 per cent of all organisational theft and fraud is committed by employees, not outsiders.[31] **Employee theft** is defined as any

unauthorised taking of company property by employees for their personal use.[32] It can range from embezzlement to fraudulent filing of expense reports to removing equipment, parts, software or office supplies from organisational premises. Retail businesses have long faced serious potential losses from employee theft, but now loose financial controls and the ready availability of information technology have made employee stealing an escalating problem in all kinds and sizes of organisations. It's a control issue that managers need to educate themselves about and be prepared to deal with.[33]

employee theft

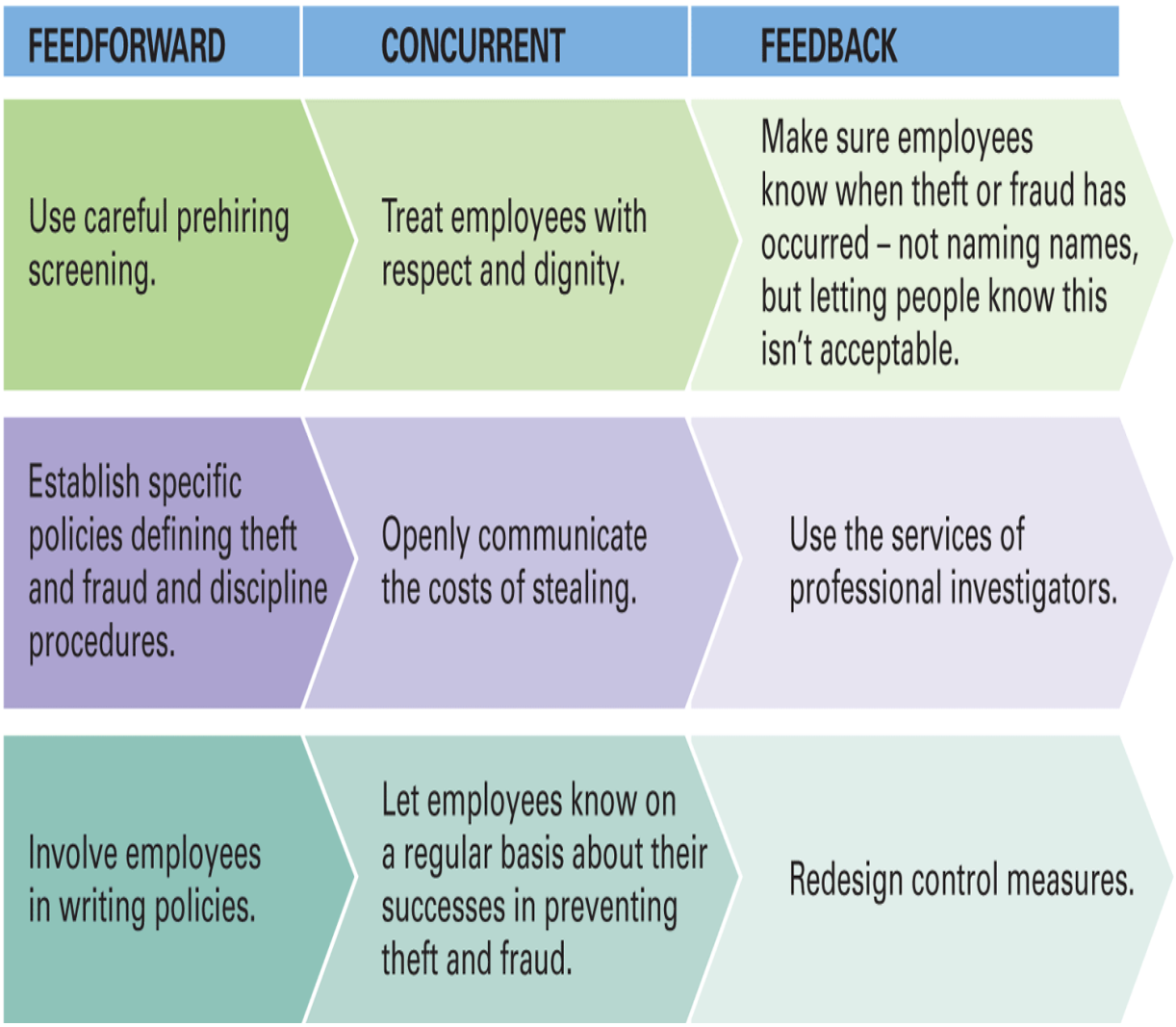
Any unauthorised taking of company property by employees for their personal use

Why do employees steal? The answer depends on the person being asked.[34] Experts in various fields – industrial security, criminology, clinical psychology – have different perspectives. The industrial security people propose that people steal because the opportunity presents itself through lax controls and favourable circumstances. Criminologists say that it's because people have financial-based pressures (such as personal financial problems) or vice-based pressures (such as gambling debts). Clinical psychologists suggest that people steal because they can rationalise whatever they're doing as being correct and appropriate behaviour ('everyone does it', 'they

had it coming', 'this company makes enough money and they'll never miss anything this small', 'I deserve this for all that I put up with', and so on).[35] Although each approach provides compelling insights into employee theft and has been instrumental in attempts to deter it, unfortunately employees continue to steal. What can managers do?

The concept of feedforward, concurrent and feedback control is useful for identifying measures to deter or reduce employee theft.[36] **Figure 15.5** summarises several possible managerial actions.

Figure 15.5 Controlling employee theft



Source: Stephen P. Robbins and Mary Coulter, Management, 13th edn, © 2016, p. 541. Reprinted and reproduced electronically by permission of Pearson Education, Inc., New York.

Controlling workplace conflict

The ability to manage conflict[37] is undoubtedly one of the most important skills a manager needs to possess.[38] In fact, dealing with conflict takes up, on average, about 20 per cent of a manager's time.[39] **Conflict** is perceived incompatible differences resulting in some form of interference or opposition. The **traditional view of conflict** argues that conflict must be avoided, that it indicates a problem within the group. Another view, the **human relations view of conflict**, argues that conflict is a natural and inevitable outcome in any group and need not be negative, but has the potential to be a positive force in contributing to a group's performance. The third and most recent view, the **interactionist view of conflict**, proposes not only that conflict can be a positive force in a group, but also that some conflict is *absolutely necessary* for a group to perform effectively. So, controlling workplace conflict isn't just about minimising or resolving conflict. It's also about stimulating conflict when it's useful, valuable, necessary or constructive.[41]

Employee theft includes theft of property such as stationery, computers or power tools, but it can also include theft of data and intellectual property, fraud, undercharging for company products, doctoring company documents, falsifying time records and using company time for personal matters.[40]

Africa Studio/Shutterstock

conflict

Perceived differences resulting in interference or opposition

traditional view of conflict

The view that all conflict is bad and must be avoided

human relations view of conflict

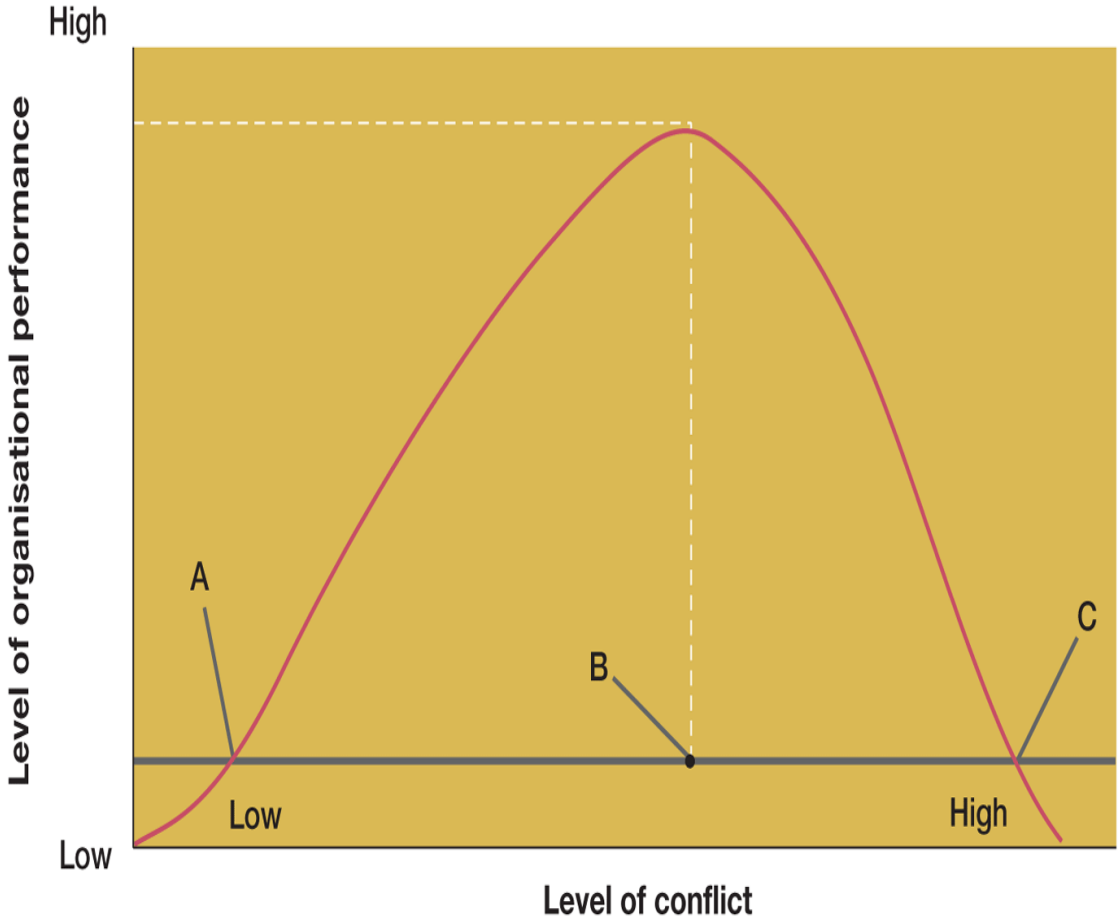
The view that conflict is natural and inevitable and has the potential to be a positive force

interactionist view of conflict

The view that some conflict is necessary for an organisation to perform effectively

Constructive conflicts, known as **functional conflicts**, support an organisation's goals and improve performance. Other conflicts – **dysfunctional conflicts** – are destructive and prevent organisations from achieving their goals. **Figure 15.6** illustrates how different levels of functional and dysfunctional conflict impact organisational performance.

Figure 15.6 Conflict and organisational performance



Situation	Level of conflict	Type of conflict	Organisation's internal characteristics	Level of organisational performance
A	Low	Dysfunctional	Apathetic	Low

	or none		Stagnant Unresponsive to change Lack of new ideas	
B	Optimal	Functional	Viable Self-critical Innovative	High
C	High	Dysfunctional	Disruptive Chaotic Uncooperative	Low

functional conflicts

Conflict that's constructive and supports an organisation's goals

dysfunctional conflicts

Conflict that's destructive and prevents an organisation from achieving its goals

Whether conflict is functional or dysfunctional depends on the type of conflict.[42] **Task conflict** relates to the content and goals of the work. **Relationship conflict** focuses on interpersonal

relationships. **Process conflict** refers to how the work gets done. Research shows that relationship conflicts are almost always dysfunctional because the interpersonal hostilities increase personality clashes and decrease mutual understanding and so the tasks don't get done. Process conflict can be functional and productive, but only at low levels. Otherwise, intense arguments over who should do what may become dysfunctional since they can lead to uncertainty about task assignments, increase the time to complete tasks and lead to members working at cross-purposes. Low-to-moderate level of task conflict consistently has a positive effect on group performance because it stimulates discussion of ideas that help groups be more innovative.[43]

task conflict
Conflict that relates to the content and goals of work

relationship conflict
Conflict that focuses on interpersonal relationships

process conflict

Conflict that refers to how the work gets done

There is no clear demarcation between functional and dysfunctional conflict, and no definitive method for determining when conflict is needed. However, an affirmative answer to one or more of the following questions may suggest a need for conflict stimulation:[44]

- Are decision makers so focused on reaching a compromise that they lose sight of values, long-term objectives or the organisation's welfare?
- Do managers believe that it's in their best interest to maintain the impression of peace and cooperation in their unit, regardless of the price?
- Are decision makers excessively concerned about hurting the feelings of others?
- Do managers believe that popularity is more important for obtaining organisational rewards than competence and high performance?
- Do managers put undue emphasis on obtaining consensus for their decisions?
- Do employees show unusually high resistance to change?
- Is there a lack of new ideas?

So, how can a manager stimulate functional conflict when that is necessary?[45] One strategy is to give conflict legitimacy in the organisation. This step may require changing the culture of the organisation. Individuals who challenge the status quo, suggest innovative ideas, offer divergent opinions and demonstrate original thinking need to be rewarded visibly with promotions, salary increases and other positive reinforcers. Another strategy is to bring in new people with backgrounds, values, attitudes or managerial styles that differ from those of present members. Many large corporations have used this technique during the past decade to fill vacancies on their boards of directors. Women, minority group members, consumer advocates, and others whose backgrounds and interests differ significantly from those of the rest of the board have been selected to add a fresh perspective. Structural changes can also help. Centralising decisions, realigning work groups, increasing formalisation and increasing interdependencies between units are all structural devices that disrupt the status quo and increase conflict levels.

When group conflict levels are too high, managers can select from five conflict management options: avoidance, accommodation, forcing, compromise and collaboration.[46] (See **Table 15.3** for a description of these techniques.) Keep in mind that no one option is ideal for every situation. Which approach to use depends on the circumstances. And finally, be aware that not every conflict can, or should, be managed. When antagonisms are deeply rooted, when one or both parties wish to prolong a conflict, or when emotions run so high that constructive interaction is impossible, efforts to manage

the conflict are unlikely to meet with much success. Additionally, some conflicts aren’t worth the effort; some are outside your realm of influence; and still others may be functional and, as such, are best left alone.

Table 15.3 Conflict management: What works best and when

Review

Chapter 15 summary

15.1 Explain the nature and importance of control.
Control is the management function that involves monitoring activities to ensure that they're being accomplished as planned and correcting any significant deviations.

As the final step in the management process, controlling provides the link back to planning. If managers didn't control, they'd have no way of knowing whether goals were being met.

Control is important because (1) it's the only way to know whether goals are being met and, if not, why; (2) it provides information and feedback so managers feel comfortable empowering employees; and (3) it helps to protect an organisation and its assets.

15.2 Describe the three steps in the control process.
The three steps in the control process are measuring, comparing and taking action. Measuring involves deciding how to measure actual performance and what to measure. Comparing involves looking at the variation between actual performance and the standard (goal). Deviations outside an acceptable range of variation need attention.

Taking action can involve doing nothing, correcting the actual performance or revising the standards. Doing nothing is self-explanatory. Correcting the actual performance can involve different

corrective actions, which can either be immediate or basic. Standards can be revised by either raising or lowering them.

15.3 Discuss the types of controls organisations and managers use.

Feedforward controls take place before a work activity is done. Concurrent controls take place while a work activity is being done. Feedback controls take place after a work activity is done.

Financial controls that managers can use include financial ratios (liquidity, leverage, activity and profitability) and budgets. One information control managers can use is a management information system, which provides them with needed information on a regular basis. Others include comprehensive and secure controls, such as data encryption, system firewalls, data backups and so on, that protect the organisation's information. Also, balanced scorecards provide a way to evaluate an organisation's performance in four different areas, rather than just from the financial perspective.

15.4 Discuss contemporary issues in control.

Managers can use positive and negative feedback to control employee performance. Adjusting controls for cross-cultural differences may be needed primarily in the areas of measuring and taking corrective actions.

Controlling the use of workplace technology, employee theft and workplace conflict requires managers to have policies in place to control inappropriate actions and ensure that work is being done efficiently and effectively.

Discussion questions

15.1 What is the role of control in management?
15.2 Describe four methods managers can use to measure actual work performance.
15.3 How are planning and control linked? Is the control function linked to the organising and leading functions of management? Explain.
15.4 Contrast feedforward, concurrent and feedback controls.
15.5 Identify some ways in which cultural differences affect how managers can exercise control.
15.6 In the chapter on managing change and innovation, we discussed the ‘white-water rapids’ view of change. Do you think it’s possible to establish and maintain effective standards and controls in dynamic and fluid environments? Discuss.
15.7 Why is it that what is measured is more critical to the control process than how it is measured?
15.8 Why is it important for employers to monitor employee use of workplace technology? What would you consider ‘acceptable’ ways to do this? What would be ‘unacceptable’? Justify your answers.
15.9 How can managers stimulate functional conflict in the workplace?
15.10 Which forms of conflict should a manager try to control? Which forms should they ‘leave alone’?

Management skills spotlight: Disciplining difficult employees

Almost all managers will, at one time or another, have to deal with employees who are difficult. There is no shortage of characteristics that can make someone difficult to work with. Some examples include being: short-tempered, demanding, abusive, angry, defensive, complaining, intimidating, aggressive, narcissistic, arrogant and rigid. Successful managers have learnt how to cope with difficult people.

Experiential exercise

As we explained in this chapter, in order to improve control over a process we first have to know what actual performance level is currently being achieved. Then we can set a new performance standard and establish controls to help us achieve it. In this exercise, you're going to trial this by considering how to reduce your food waste.

1. For one week, note all the food you throw out because you can't eat it (e.g. because it has passed its use-by date) and food you throw out because you didn't eat all of it (e.g. leftovers, pizza crusts).
2. Now set a new standard for yourself: define how much less food (e.g. 10 per cent less) you will waste next week. Check again in a week (or even a few days). Are you on track to meet your new standard?
3. Now reflect on that process.
    a. Describe how you decided what your new standard would be.
    b. Interpret the basis for your decision. What sort of standard did you set yourself? One you knew would be easy to achieve? One that would really challenge you? How hard did you try to meet it?
    c. Evaluate your experience. Did you meet your new standard? Why or why not? What did this experience

teach you about the impact of setting standards that felt ‘too easy’ or ‘too hard’?

d. Consider how you could use the insights from this experience. Next time you want to improve your control over a process, how will you work out the new performance standard you will use?

Case application: In the can

You've probably heard the saying that 'what gets measured, gets managed'. At Kraft Heinz, they believe that what gets measured, gets improved.[47] Kraft Heinz is a global company that manufactures three main types of food products: sauces, convenience meals and infant nutrition products (baby food). (It was previously known as Heinz but was taken over by Kraft in 2015.) The company employs more than 41,000 staff worldwide and generates over US$26 billion in sales per year. To facilitate continuous improvement to its products and processes, Heinz (as it then was) developed the Heinz Global Performance System (HGPS). The HGPS was designed to establish a globally consistent approach to improving productivity and to embed it in the organisation's culture. The system has two elements: (1) improving productivity at each factory; and (2) establishing a global system for managing performance improvements across all the company's factories.

> Monitoring productivity has enhanced creativity and problem solving.

In individual factories, the HGPS improves productivity by fostering employee ideas about minimising wastage and loss, improving production scheduling and planning, maximising the

use of manufacturing assets and reducing downtime. The first step is engaging and empowering the entire workforce to focus on continually improving efficiency and productivity. This involves teaching staff how to engage in continuous improvement processes, training work teams in problem-solving techniques and training improvement facilitators to act as change leaders. Then a site assessment determines the opportunities for improving factory productivity through techniques such as a loss and waste analysis and identifying profit improvement projects.

The global system tracks the performance at every individual factory, including its progress in implementing its road map and achieving productivity improvements. This allows the company to compare the performance of factories in different locations and lets individual factories benchmark themselves against other factories in their region.

Within two years of its introduction, the HGPS was being used across the company's operations in Europe, North America and Asia, including the four Australian factories in Echuca (Victoria), Wagga Wagga (New South Wales), Mill Park (Melbourne) and Northgate (Brisbane). And its benefits for enhancing productivity were already becoming apparent. At the Brisbane factory, improvements have been particularly dramatic. The factory produces canned pineapples as well as bottles and boxes of pineapple juice. It has a permanent workforce of 400, which swells to 600 between February and June – the peak of the pineapple season.

The HGPS has instituted a new focus on constantly monitoring performance and improving processes. Before each shift, team members meet to discuss the achievements of the previous shift, calculate savings achieved by productivity improvements and address any issues that affected production. In the factory, charts display hourly production rates, and red, green and yellow colour markers indicate how production levels are tracking against targets so that employees always know how the factory is performing. Improvements made under the program have directly increased pineapple yield – the amount of the pineapple that goes into the can or bottle – saving Kraft Heinz $4 million per year. But the biggest changes have been to the culture in the factory itself. Encouraging staff to focus more closely on productivity has generated a new emphasis on creativity and problem solving in which employees are more comfortable making suggestions about ways to improve production processes. So much so, that the Brisbane factory has 'gone from the bottom of the ladder to playing in the finals', according to Simon Leonard, Kraft Heinz's general manager of operations, and won 'Factory of the Year' two years running at the company's annual awards.

Discussion questions

15.11 How has Kraft Heinz used the HGPS to execute the control process?

15.12 How could the Brisbane factories use (a) feedforward controls, (b) concurrent controls, and (c)

feedback controls to improve pineapple yields?

15.13 How has Kraft Heinz developed a new control-oriented culture focused on improving productivity?

15.14 What goals, measures and standards could Kraft Heinz develop to enhance productivity?

Running case: Holiday home helpers: Controlling in consultation with employees

At the beginning of Nate's last week at HHH, he and Mia held a final handover meeting. 'Well,' said Mia. 'Everyone I've talked to here at HHH speaks highly of the ways you've tightened up performance while you've been the manager for this region. How have you been able to introduce new control systems and make people *like* them?'

'I guess there were two battles to win,' said Nate. 'The first was to convince people that I wasn't introducing new controls to make their jobs harder, but actually to make them easier and more rewarding. The second was making that control focus the "new normal".'

'So, how did you win?' asked Mia.

'Step 1 was explaining to people the goals we had set for quality standards and efficiency, and then asking them to tell me what was going to prevent the company from achieving them. Step 2 was revising the plans to incorporate those issues, and setting up control systems to monitor them. Step 3

was going back to the staff and saying “This is what I’ve set up to help make this happen. Tell me if it’s working or not. What have I missed?” So, by the time I implemented the new control systems in step 4, the staff knew what they were and what they were for. They were also confident that the new controls would improve the company’s operations and people’s capacity to do their jobs, because that’s what they had designed them to do!

‘During the implementation phase, I redesigned our training programs for cleaners and property managers so that they included explanations of how we quality-control each part of their job performance. This was particularly important for helping people understand why we were introducing new systems, such as spot checks at properties that were being cleaned, and monitoring guest reviews for the properties we manage. Then I asked a couple of our most experienced employees to undertake the training as if they were new staff members, and to let me know what messages they took away from it about the company’s commitment to quality, and how their performance would be monitored and measured. Their feedback told me that I’d gotten the messages through that I was aiming for. So, right before we hired all our new workers for the peak holiday season, I re-delivered that training to all the other staff. That way, by the time I had trained the new employees as well, every single staff member knew what we were doing and how they were going to be managed from now on. So, we then had peer reinforcement working for us as well.

‘But I think we really won them over when we started sharing the results with them. Once they saw that I was picking up on the issues I said I was going to pick up on, and was then taking action, they had a lot more confidence in the system. More to the point, when they saw that I really was using it to identify and reward excellent performance, as well as to correct poor performance, they were happier for this to be the “new normal”. I did have to make some adjustments, of course. Some of our employees come from cultures where feedback is only given indirectly and in a very non-confrontational manner, so even saying “there are issues with your work” made some of them feel uncomfortable. There were also some cleaning teams in which conflict developed because team members were blaming each other for performance gaps. Some of these I left alone to work it out among themselves. In other cases, I intervened. In two cases, I relocated the team members because their working relationship had broken down so far it wasn’t fixable. But mostly, things worked really well.’

Discussion questions

15.15 How did Nate link planning, control and empowerment of employees?

15.16 How did Nate use management by walking around to develop and implement the new control system?

15.17 What examples can you see in this case of feedforward control, concurrent control and feedback

control?

15.18 How did Nate use feedback to improve employee performance? What impact did this have on HHH?

Endnotes

1 ‘Coronavirus: “Serious Mistakes” Made over *Ruby Princess* Outbreak’, *BBC News*, 17 August 2020; F. Mao, ‘Coronavirus: How Did Australia’s *Ruby Princess* Cruise Debacle Happen?’, *BBC News*, 24 March 2020; N. Zhou, ‘Anatomy of a Cruise: How the *Ruby Princess* Came to Dock and Disembark with Coronavirus’, *The Guardian*, 10 May 2020; and C. Wahlquist, ‘Tasmania Coronavirus Outbreak Traced to Two *Ruby Princess* Passengers’, *The Guardian*, 30 April 2020.

2 J. F. Van Niekerk and R. Von Solms, ‘Information Security Culture: A Management Perspective’, *Computers & Security*, June 2010, pp. 476–86; T. Vinas and J. Jusko ‘5 Threats that Could Sink Your Company’, *Industry Week*, September 2004, pp. 52–61; ‘Workplace Security: How Vulnerable Are You?’, Special section in *Wall Street Journal*, 29 September 2003, pp. R1–8; P. Magnusson, ‘Your Jitters Are Their Lifeblood’, *BusinessWeek*, 14 April 2003, p. 41; and T. Purdum, ‘Preparing for the Worst’, *Industry Week*, January 2003, pp. 53–5.

3 ‘Domino’s Dishes Out 11,000 Free Pizzas by Mistake’*, Sydney Morning Herald*, 3 April 2009, **https://www.smh.com.au/business/dominos-dishes-out-11-000-free-pizzas-by-mistake-20141112-9lcc.html**.

4 B. Nelson, ‘Long-Distance Recognition’, *Workforce*, August 2000, pp. 50–2.

5 S. Kerr, 'On the Folly of Rewarding A, While Hoping for B', *Academy of Management Journal*, December 1975, pp. 769–83; and N. F. Piercy, D. W. Cravens, N. Lane and D. W. Vorhies, 'Driving Organizational Citizenship Behaviors and Salesperson In-Role Behavior Performance: The Role of Management Control and Perceived Organizational Support', *Journal of the Academy of Marketing Science*, Spring 2006, pp. 244–62.

6 Managing for Diversity and Inclusion box based on KPMG, 'ASX Corporate Governance Council Principles and Recommendations on Diversity, 2016', **www.asx.com.au/documents**, accessed 16 November 2017; Australian Securities Exchange, 'Corporate Governance Council', **www.asx.com.au**, accessed 16 November 2017; and ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 3rd edn (2014), **www.asx.com.au**, accessed 16 November 2017.

7 H. Koontz and R. W. Bradspies, 'Managing through Feedforward Control', *Business Horizons*, June 1972, pp. 25–36.

8 M. Helft, 'The Human Hands behind the Google Money Machine', *New York Times Online*, 2 June 2008.

9 J. Yang and S. Music, 'Micromanaging', *USA Today*, 8 August 2014, p. 1B.

10 B. Grow, K. Epstein and C-C. Tschang, 'The New E-Spionage Threat', *BusinessWeek*, 21 April 2008, pp. 32–41; S. Leibs, 'Firewall of Silence', *CFO*, April 2008, pp. 31–5; J. Pereira, 'How Credit-Card Data Went out Wireless Door', *Wall Street Journal*, 4 May 2007, pp. A1+; and B. Stone, 'Firms Fret as Office E-Mail Jumps Security Walls', *New York Times Online*, 11 January 2007.

11 This section adapted from 'No Costly Surprises', *BRW*, 17 October – 20 November 2013, pp. 56–64.

12 R. S. Kaplan and D. P. Norton, 'How to Implement a New Strategy without Disrupting Your Organization', *Harvard Business Review*, March 2006, pp. 100–9; L. Bassi and D. McMurrer, 'Developing Measurement Systems for Managers in the Knowledge Era', *Organizational Dynamics*, May 2005, pp. 185–96; G. M. J. DeKoning, 'Making the Balanced Scorecard Work (Part 2)', *Gallup Brain*, **http://brain.gallup.com**, 12 August 2004; G. J. J. DeKoning, 'Making the Balanced Scorecard Work (Part 1)', *Gallup Brain*, **http://brain.gallup.com**, 8 July 2004; K. Graham, 'Balanced Scorecard', *New Zealand Management*, March 2003, pp. 32–4; K. Ellis, 'A Ticket to Ride: Balanced Scorecard', *Training*, April 2001, p. 50; and T. Leahy, 'Tailoring the Balanced Scorecard', *Business Finance*, August 2000, pp. 53–6.

13 L. L. Burney and N. J. Swanson, 'The Relationship between Balanced Scorecard Characteristics and Managers' Job Satisfaction', *Journal of Managerial Issues*, Summer 2010, pp. 166–81.

14 D. Brown, D. Bedford and P. Sivabalan, 'A New State of Balance', *Intheblack*, October 2008, pp. 56–9.

15 T. Leahy, 'Tailoring the Balanced Scorecard', *Business Finance*, August 2000, pp. 53–6.

16 Managing for Sustainability box based on 'Sustainable Development', *Wikipedia*, accessed 10 October 2012; 'Circles of Sustainability', *Wikipedia*, accessed 10 October 2012; and A. Scerri and P. James, 'Accounting for Sustainability: Combining Qualitative and Quantitative Research in Developing "Indicators" of

Sustainability', *International Journal of Social Research Methodology*, February 2010, pp. 41–53.

17 A. Scerri and P. James, 'Accounting for Sustainability: Combining Qualitative and Quantitative Research in Developing "Indicators" of Sustainability', *International Journal of Social Research Methodology*, February 2010, p. 42.

18 T. Leahy, 'Tailoring the Balanced Scorecard', *Business Finance*, August 2000, pp. 53–6.

19 W. H. Newman, *Constructive Control: Design and Use of Control Systems* (Upper Saddle River, NJ: Prentice Hall, 1975), p. 33.

20 See, for example, K. Leung, S. Su and M. W. Morris, 'When Is Criticism Not Constructive? The Roles of Fairness Perceptions and Dispositional Attributions in Employee Acceptance of Critical Supervisory Feedback', *Human Relations*, September 2001, p. 1155; and C. A. Walker, 'Saving Your Rookie Managers from Themselves', *Harvard Business Review*, April 2002, pp. 97–103.

21 D. Ilgen, C. D. Fisher and M. S. Taylor, 'Consequences of Individual Feedback on Behavior in Organizations', *Journal of Applied Psychology*, August 1979, pp. 349–71.

22 F. Bartolome, 'Teaching about Whether to Give Negative Feedback', *The Organizational Behavior Teaching Review*, vol. 9, no. 2 (1986/87), pp. 95–104.

23 K. Halperin, C. R. Snyder, R. J. Schenkel and B. K. Houston, 'Effect of Source Status and Message Favorability on Acceptance of Personality Feedback', *Journal of Applied Psychology*, February 1976, pp. 85–8.

24 Better Cotton Initiative, 'Our Message', **https://bettercotton.org/**resources/message, accessed 19 October 2020; and Better Cotton Initiative, 'Better Cotton Standard System', **https://bettercotton.org/**better-cotton-standard-system, accessed 19 October 2020.

25 Information on *Hoovers Online*, www.hoovers.com, 17 June 2011; and N. Shirouzu and J. Bigness, '7-Eleven Operators Resist System to Monitor Managers', *Wall Street Journal*, 16 June 1997, p. B1.

26 AMA/ePolicy Institute, '2005 Electronic Monitoring & Surveillance Survey', *American Management Association*, **www.amanet.org**.

27 G. Jandaghi, S. M. Alvani, H. Z. Matin and S. F. Kozekanan, 'Cyberloafing Management in Organizations', *Iranian Journal of Management Studies*, vol. 8, issue 3 (July 2015), pp. 335–49; and 'Cyberloafing at Work', **www.psychology.iresearchnet.com**, accessed 22 January 2020.

28 B. White, 'The New Workplace Rules: No Video-Watching', *Wall Street Journal*, 4 March 2008, pp. B1+.

29 P-W. Tam, E. White, N. Wingfield and K. Maher, 'Snooping E-Mail by Software Is Now a Workplace Norm', *Wall Street Journal*, 9 March 2005, pp. B1+; D. Hawkins, 'Lawsuits Spur Rise in Employee Monitoring', *US News & World Report*, 13 August 2001, p. 53; and L. Guernsey, 'You've Got Inappropriate Mail', *New York Times*, 5 April 2000, pp. C1+.

30 S. Armour, 'More Companies Keep Track of Workers' E-Mail', *USA Today*, 13 June 2005, p. 4B; and E. Bott, 'Are You Safe? Privacy Special Report', *PC Computing*, March 2000, pp. 87–8.

31 A. M. Bell and D. M. Smith, 'Theft and Fraud May Be an Inside Job', *Workforce Online*, 3 December 2000.

32 J. Greenberg, 'The STEAL Motive: Managing the Social Determinants of Employee Theft', in R. Giacalone and J. Greenberg (eds), *Antisocial Behavior in Organizations* (Newbury Park, CA: Sage, 1997), pp. 85–108.

33 B. E. Litzky, K. A. Eddleston and D. L. Kidder, 'The Good, the Bad and the Misguided: How Managers Inadvertently Encourage Deviant Behaviors', *Academy of Management Perspective*, February 2006, pp. 91–103; 'Crime Spree', *BusinessWeek*, 9 September 2002, p. 8; B. P. Niehoff and R. J. Paul, 'Causes of Employee Theft and Strategies That HR Managers Can Use for Prevention', *Human Resource Management*, Spring 2000, pp. 51–64; and G. Winter, 'Taking at the Office Reaches New Heights: Employee Larceny Is Bigger and Bolder', *New York Times*, 12 July 2000, pp. $C1+$.

34 This section is based on J. Greenberg, *Behavior in Organizations: Understanding and Managing the Human Side of Work*, 8th edn (Upper Saddle River, NJ: Prentice Hall, 2003), pp. 329–30.

35 A. H. Bell and D. M. Smith, 'Why Some Employees Bite the Hand That Feeds Them', *Workforce Online*, 3 December 2000.

36 B. E. Litzky, K. A. Eddleston and D. L. Kidder, 'The Good, the Bad and the Misguided: How Managers Inadvertently Encourage Deviant Behaviors', *Academy of Management Perspective*, February 2006, pp. 91–103; A. H. Bell and D. M. Smith, 'Protecting the Company against Theft and Fraud', *Workforce Online*, 3 December 2000; J. D. Hansen, 'To Catch a Thief', *Journal of Accountancy*, March 2000, pp. 43–6; and J. Greenberg, 'The Cognitive Geometry

of Employee Theft', in *Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior* (Stamford, CT: JAI Press, 1998), pp. 147–93.

37 This section is adapted from S. P. Robbins, *Managing Organizational Conflict: A Nontraditional Approach* (Upper Saddle River, NJ: Prentice Hall, 1974), pp. 11–14. Also see D. Wagner-Johnson, 'Managing Work Team Conflict: Assessment and Preventative Strategies', Center for the Study of Work Teams, University of North Texas, www.workteams.unt.edu, 3 November 2000; and M. Kennedy, 'Managing Conflict in Work Teams', Center for the Study of Work Teams, University of North Texas, www.workteams.unt.edu, 3 November 2000.

38 M. Delahoussaye, 'Don't Get Mad, Get Promoted', *Training*, June 2002, p. 20; and C. Tinsley and J. Brett, 'Managing Workplace Conflict in the United States and Hong Kong', *Organizational Behavior and Human Decision Processes*, July 2001, pp. 360–2.

39 K. W. Thomas and W. H. Schmidt, 'A Survey of Managerial Interests with Respect to Conflict', *Academy of Management Journal*, June 1976, pp. 315–18.

40 G. Bryant, 'Caught Red Handed?', *Sydney Morning Herald*, 2 July 2013; M. Demarco and A. Ford, 'Theft in the Workplace – What Are the Costs to Employers and How Should It Be Managed?', **www.cbp.com.au**, 13 June 2014, accessed 21 November 2014.

41 See, for example, D. Tjosvold and D. W. Johnson, *Productive Conflict Management Perspectives for Organizations* (New York: Irvington Publishers, 1983).

42 See K. A. Jehn, 'A Multimethod Examination of the Benefits and Detriments of Intragroup Conflict', *Administrative Science*

Quarterly, June 1995, pp. 256–82; K. A. Jehn, 'A Qualitative Analysis of Conflict Type and Dimensions in Organizational Groups', *Administrative Science Quarterly*, September 1997, pp. 530–57; K. A. Jehn, 'Affective and Cognitive Conflict in Work Groups: Increasing Performance through Value-Based Intragroup Conflict', in C. DeDreu and E. Van deVliert (eds), *Using Conflict in Organizations* (London: Sage Publications, 1997), pp. 87–100; K. A. Jehn and E. A. Mannix, 'The Dynamic Nature of Conflict: A Longitudinal Study of Intragroup Conflict and Group Performance', *Academy of Management Journal*, April 2001, pp. 238–51; C. K. W. DeDreu and A. E. M. Van Vianen, 'Managing Relationship Conflict and the Effectiveness of Organizational Teams', *Journal of Organizational Behavior*, May 2001, pp. 309–28; and J. Weiss and J. Hughes, 'Want Collaboration? Accept – and Actively Manage – Conflict', *Harvard Business Review*, March 2005, pp. 92–101.

43 C. K. W. DeDreu, 'When Too Little or Too Much Hurts: Evidence for a Curvilinear Relationship between Task Conflict and Innovation in Teams', *Journal of Management*, February 2006, pp. 83–107.

44 S. P. Robbins, 'Conflict Management and Conflict Resolution Are Not Synonymous Terms', *California Management Review*, Winter 1978, p. 71.

45 See E. Van de Vliert, A. Nauta, E. Giebels and O. Janssen, 'Constructive Conflict at Work', in L. N. Dosier and J. B. Keys (eds), *Academy of Management Best Paper Proceedings*, 8–13 August 1997, pp. 92–6; S. P. Robbins, *Managing Organizational Conflict: A Nontraditional Approach* (Upper Saddle River, NJ: Prentice Hall,

1974), pp. 78–89; and S. Berglas, 'Innovate: Harmony is Death. Let Conflict Reign', *Inc.*, May 1997, pp. 56–8.

46 K. W. Thomas, 'Conflict and Negotiation Processes in Organizations', in M. D. Dunnette and L. M. Hough (eds), *Handbook of Industrial and Organizational Psychology*, 2nd edn, vol. 3 (Palo Alto, CA: Consulting Psychologists Press, 1992), pp. 651–717.

47 'HJ Heinz Australia', *BRW*, 6 December 2012, p. 23; G. Thomas, 'The Few and the Proud', **www.etracc.net**, accessed 7 January 2013; 'Heinz Performance System the Key to Leveraging Golden Circle Brand', *Manufacturers' Monthly*, 1 September 2010; B. Sperber, '2011 Processor of the Year HJ Heinz Co: A Global Standard for Local Performance', *Food Processing*, 30 November 2011; M. Ashcroft, 'HJ Heinz: From Project to Process', *Business Excellence*, 6 June 2010; 'Heinz Baby', **www.heinzbaby.com**, accessed 7 January 2013; Heinz, *Annual Report 2012*, **www.heinz.com**, accessed 7 January 2013; Kraft Heinz, 'Company', **www.kraftheinzcompany.com/company.html**, accessed 29 October 2017; and G. Colvin, 'Buy, Squeeze, Repeat', *Forbes*, 9 January 2017.

Chapter **16** Managing entrepreneurial ventures

Fact or fiction?

People who are good entrepreneurs are born that way.

Fiction

Being a good entrepreneur isn't a matter of having a particular genetic profile. Although some hereditary characteristics might make you more comfortable with the challenges of pursuing an entrepreneurial venture, ***success as an entrepreneur depends far more on skills that can be taught and learnt***.

Entrepreneurial thinking has brought fresh perspectives and new approaches into many types of organisation, from community organisations to large multinational corporations.

As the opening case shows, it's also brought new ideas and perspectives into some very remote places! In this chapter, we'll examine what entrepreneurship is and then discuss how entrepreneurs use the four managerial functions of planning, organising, leading and controlling to run their entrepreneurial ventures.[1]

Learning outcomes

16.1 Explain what entrepreneurship is and who engages in it.
16.2 Describe what's involved in planning an entrepreneurial venture.
16.3 Explain how entrepreneurial ventures can be organised.
16.4 Discuss what's involved in leading an entrepreneurial venture.
16.5 Discuss what's involved in controlling an entrepreneurial venture.
16.6 Discuss how entrepreneurs can manage personal challenges.

Storytelling with technology

Mikaela Jade is using entrepreneurship to help Indigenous people utilise digital technologies to share their stories and culture.

Photo courtesy of Indigital

Entrepreneurship often involves creating new solutions to problems. For Mikaela Jade, it's about bringing new technology to some of the oldest stories on Earth.[2] Jade, a Cabrogal woman, began her entrepreneurial journey when she realised that augmented reality technologies held huge potential for helping Indigenous people share their cultural traditions and stories. In 2012 she created her company Indigital with a mission 'to help Indigenous peoples access digital engagement opportunities for storytelling that are quality, affordable, and culturally appropriate'.

Mikaela founded her company Indigital from Jabiru, a town in the Kakadu region 240 km east of Darwin in the Northern Territory. In its early days, the company's remote location provided privacy for creativity and experimentation. As Jade explained, 'We weren't very visible to the broader Australian community [so] there wasn't any anticipation of when we were going to launch or what we were doing … We could just build it … working with traditional owners, and that gave us time to develop in a culturally appropriate way.' But operating in such a remote location also posed some big challenges, especially for a company 'trying to develop tech that didn't exist a few years ago in an industry that's absolutely ripe for disruption', as Jade described it. The first big challenge: most of the

locations in which Jade wanted her product to work didn't have internet access. So, she developed her technology to work on smartphones instead, meaning users can aim their smartphone at rock art or other objects and image recognition technology unlocks details about the object and stories about the site derived from Indigenous cultural law and heritage.

The next big challenge was to help Indigenous communities understand what the technology had to offer. Many people couldn't understand how mixed reality worked and could be used in Aboriginal storytelling, because they had never seen the technology in action. So, Jade produced postcards and T-shirts featuring Aboriginal art images as a portable and accessible demonstration of the augmented reality experience.

Another challenge was getting investment funding for Indigital because 'I'm Indigenous. I'm female. I operate a tech business from a remote part of Australia. Investors said I was high risk.' She self-funded the original product and then successfully applied for a government grant to develop it. Her next challenge was figuring out how to make augmented reality work without internet access. Unable to find affordable assistance in Australia, she decided to 'go global'. 'I just started cold calling anyone who was doing augmented reality overseas and telling them what I needed to do. These guys in the UK got back to me and said, "We love it. Let's do it."'

By 2017, Jade's success in developing her technology and the demand for augmented reality from Indigenous communities meant she faced two new challenges: more demand for her

services than she could manage, and high content production costs. She decided that, rather than continue focusing on creating digital content for others, she would teach them to develop it for themselves. By 2021, Indigital had ‘pivoted’ into an Edu-tech company and developed the Indigital Schools program. The program teaches both Indigenous and non-Indigenous children about Indigenous cultural knowledge, history and language, while also teaching them to use augmented reality, digital automation and code. Indigital’s team first teach educators how to work with Indigenous elders and children to co-design and co-create materials using the Indigital learning program. Educators then use Indigital’s platforms and resources to teach the children how to produce digital projects using animation and augmented reality. By the end of 2020, Indigital had worked with educators and students in 36 schools across Australia, and Jade and her team were scaling up their program to be used by First Nations people across the world. By helping Indigenous children learn to use cutting-edge digital technologies, Jade is achieving her twin dreams of ensuring that Indigenous people can leverage new technologies and the opportunities they present, and that Indigenous cultures are respectfully and appropriately supported.

What is entrepreneurship?

Learning outcome 16.1 Explain what entrepreneurship is and who engages in it.

Entrepreneurship is engaging in dynamic, risk-taking, creative, growth-oriented behaviour. It's usually practised in the context of creating a new business, but not always.[3] An entrepreneur sees an opportunity or an unmet need and won't stop searching or creating until they find a way to address it. Innovation is one of the key defining characteristics of entrepreneurial activity, and entrepreneurial organisations act as agents of change by providing an essential source of new and unique ideas that might otherwise go untapped. Without these new ideas, economic, technological and social progress would be slower.

Janine Allis founded Boost Juice to solve a simple problem: she couldn't find healthy snacks to buy when out shopping with her family.[8] Allis literally built the business from the ground up – she ran stores, scrubbed floors and cleaned juicers – infusing the company culture with her 'can do' attitude. Her original mission to ensure that 'every customer will leave a Boost store feeling a little bit better' has paid dividends: today, Boost has over 550 stores worldwide.

entrepreneurship

Engaging in dynamic, risk-taking, creative, growth-oriented behaviour

There are two main ways in which people engage in entrepreneurship and use entrepreneurial thinking and behaviour. The first, and most common, is by forming an entrepreneurial venture with which to pursue a particular entrepreneurial opportunity. This is the model of entrepreneurship most people are familiar with: pursuing or capitalising on opportunities by starting new businesses for the purpose of introducing new products or services that change, transform or even revolutionise a particular sector or industry. These **entrepreneurial ventures** are characterised by innovative practices, and have growth and profitability as their main goals.[4] They often start out as small businesses, but entrepreneurial ventures and small businesses aren't the same thing. An entrepreneurial venture is innovative and seeks new opportunities and growth, regardless of its size.[5]

The second way in which people use entrepreneurial thinking and behaviour is by engaging in intrapreneurship. **Intrapreneurship** is the creation of innovative products and services by developing entrepreneurial cultures within existing organisations.[6] By fostering entrepreneurial thinking and intrapreneurship, organisations can develop new competitive strengths and help solve social problems.[7]

The success of innovative businesses such as Atlassian and BigCommerce has caused many large organisations to engage in intrapreneurship and develop more entrepreneurial approaches.

Who engages in entrepreneurship?

Entrepreneurs are people willing to take risks to pursue opportunities that others either fail to recognise or view as problems or threats.[9] Entrepreneurs search for change, respond to it and exploit it. In a general sense, entrepreneurs innovate by creating something new or different. That innovation could be a new product or service, a new process, or a new business model. Some, known as **sustaining innovations**, offer small and incremental benefits over other existing alternatives. **Disruptive innovations**, in contrast, are innovations in products, services or processes that radically change an industry's rules of the game.[10] Think, for example, about how streaming services like Netflix changed the home entertainment industry and broadcast television. Or the way ride-share companies like Uber have disrupted the taxi industry.

entrepreneurial venture

Organisation that pursues opportunities, is characterised by innovative practices, and has growth and profitability as its main goals

intrapreneurship

Developing entrepreneurial cultures within existing organisations

entrepreneur

Individual who is willing to take risks to pursue opportunities that others either fail to recognise or view as problems or threats

sustaining innovation

Innovation that offers small and incremental benefits over other existing alternatives

disruptive innovation

Innovation in products, services or processes that radically changes an industry's rules of the game

Research has shown that entrepreneurs and managers differ in their mindsets, risk perceptions, and attitudes towards innovation, achievement and personal control.[11] For instance, studies have shown that entrepreneurs have greater risk propensity than managers, but this propensity is moderated by the entrepreneur's primary goal. Risk propensity is greater for entrepreneurs whose primary goal is growth versus those whose focus is on producing family income. Studies have also investigated relationships between entrepreneurialism and personality characteristics such as drive for achievement, action orientation, internal locus of control, tolerance for ambiguity, risk taking, independence, creativity and optimism.[12] Trying to pinpoint specific personality traits that characterise entrepreneurs is tricky because it requires being able to identify specific personality traits that *all* entrepreneurs share. However, the development of the proactive personality scale to predict an individual's likelihood of pursuing entrepreneurial ventures has been helpful here. The **proactive personality** is a personality trait describing those individuals who are more prone to take actions to influence their environment – that is, they're more proactive. Entrepreneurs engage in proactivity as they search for opportunities and act to take advantage of those opportunities, particularly if they then create a new venture to do so! Possessing a proactive personality has been found to be a good indicator of a person's likelihood of becoming an entrepreneur, as has having an entrepreneurial parent.

proactive personality

A personality trait describing those individuals who are more prone to take actions to influence their environment

> Being entrepreneurial = **being proactive**.

There are several different types of entrepreneur. **Opportunity-based entrepreneurs** are people who form a new venture in order to pursue an opportunity.[13] **Necessity-based entrepreneurs** – or accidental, unintended or forced entrepreneurs – create new ventures because they have few or no other employment options.[14] As you would expect, the number of necessity-based entrepreneurs increases during difficult economic times because people who have been made redundant create ventures to give themselves a job or use redundancy packages to fund their new venture.[15] **Social entrepreneurs** are individuals who use entrepreneurial principles to solve social problems or to create social change, such as by increasing access to education and technology or by reducing pollution.[16] **Serial entrepreneurs** create an entrepreneurial venture, close or sell it, found another one, close or sell it, and continue this cycle of entrepreneurial behaviour. In contrast, a **portfolio entrepreneur** creates an entrepreneurial venture and then builds a portfolio of additional businesses by establishing, purchasing or inheriting them.

spotify

Swedish entrepreneur Daniel Ek, co-founder and chief executive of Spotify, is proactive, self-confident, persistent, highly motivated, self-directed, resourceful, patient and passionate about his work. These traits have contributed to Ek's success in launching his company, convincing investors that his music business was a good investment, and leading Spotify's rapid growth to become the biggest music-streaming service in the world.

Toru Yamanaka/AFP/Getty Images

opportunity-based entrepreneur

Entrepreneur who forms a new venture in order to pursue an opportunity

necessity-based entrepreneur

Entrepreneur who creates a new venture because they have few or no other employment options

Is entrepreneurship different from self-employment?

The short answer is . . . yes. Self-employed people work for profit or fees in their own business, profession, trade or farm.[17] Self-employed individuals always work for themselves and make all the decisions about how the work gets done. They rely on their own initiative to generate an income, although this doesn't preclude them from hiring employees. Entrepreneurs may be self-employed or they may become employees of the company they start.

Entrepreneurs and self-employed individuals both focus on generating revenue from market opportunities. But self-employed people do this by simply meeting a market need: entrepreneurs do so by introducing a new product or service that changes, transforms or revolutionises the market or industry. Similarly, as we mentioned in the chapter on organisational structure and design, people who work in the gig economy may be self-employed and contract to drive for Uber or do jobs for AirTasker but aren't being entrepreneurial in the way they do that.

What planning do entrepreneurs need to do?

> Learning outcome 16.2 Describe what's involved in planning an entrepreneurial venture.

Initially, an entrepreneur is engaged in assessing the potential for an entrepreneurial venture and then planning how that venture will be established. In exploring the entrepreneurial context, entrepreneurs gather information, identify potential opportunities and find possible competitive advantage(s). Put another way, entrepreneurs identify and pinpoint pockets of opportunity presented by environmental conditions and, most particularly, environmental changes. They need to be able to do this quickly, especially in dynamic environments, before those opportunities disappear or are exploited by other people.[18]

> Recent research has shown that **microtrends** can be just as important for pinpointing entrepreneurial opportunities as huge social and economic changes.[19]

Once they have defined their entrepreneurial opportunity, the entrepreneur researches the venture's feasibility by uncovering business ideas, looking at competitors and exploring financing options. Generating new ideas can involve consideration of the limitations of what's currently available, new and different

approaches, advances and breakthroughs, unfilled niches, or trends and changes. Then the potential of those ideas needs to be evaluated. **Table 16.1** lists some of the questions that entrepreneurs might consider when evaluating potential ideas.

Table 16.1 Evaluating potential ideas

Source: Stephen P. Robbins and Mary Coulter, Management (Subscription), 14th edn, © 2018. Reprinted and reproduced electronically by permission of Pearson Education Inc., New York.

Classic concepts in today's organisations: Sources of entrepreneurial opportunities

Peter Drucker, a well-known management author, identified seven potential sources of opportunity that entrepreneurs might look for in an external context:

1. **The unexpected.** Unanticipated situations and events can present unique opportunities that entrepreneurs can leverage.
2. **The incongruous.** An incongruous situation is one in which the way things are not 'as they ought to be'. When conventional wisdom and expectations no longer hold true, opportunities arise.
3. **The process need.** Different stages of the process used to make products and services can present pockets of opportunity.
4. **Industry and market structures.** Changes in technology, social values and consumer tastes can change the structure of an industry or market and create open targets for nimble entrepreneurs.

5. **Demographics.** Significant opportunities can be created by anticipating and meeting the changing needs of the population, especially when these alter the products and services desired or customers' buying power.
6. **Changes in perception.** Changes in what people believe in, care about and value all create potential market opportunities for alert entrepreneurs.
7. **New knowledge.** New knowledge presents significant sources of opportunities to entrepreneurs, but they must be able to protect important proprietary information from competitors.

Discuss this

- Think of an entrepreneur you admire. Which of these sources of opportunity caused them to start their business?
- In today's fast-paced business environment, inspiration can come from many sources. If you were updating Drucker's list, what other sources of opportunity would you add?

During a feasibility assessment, an entrepreneur also assesses how the proposed entrepreneurial venture is going to 'fit' into its competitive context and whether it will be able to compete successfully. The final part of a feasibility assessment involves looking

at financing options to determine how the entrepreneur might get the funding they need to launch their venture.

Once the focus and viability of the proposed entrepreneurial venture has been decided, the entrepreneur develops a viable organisational mission, defines the organisation's cultural values and develops a **business plan** – a written document that summarises a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited. As you can see in **Table 16.2**, it's important for entrepreneurs to plan not just how their business will operate, but also how they will deal with variations in business demand, 'selling' their business and their ideas to others, and the demands of running their own business.

Table 16.2 What I wish I'd known before . . . five tips from successful entrepreneurs[21]

Source: Based on J. Carrigan, 'What I Wish I Knew: Three Entrepreneurs Tell All', Business Victoria, www.business.vic.gov/au/case-studies/, 18 January 2016, accessed 30 March 2021.

business plan

A written document that summarises a business opportunity, and defines and articulates how the identified opportunity is to be seized and exploited

Managing for sustainability: Sustaining people and communities

Like many venture capital organisations, Opportunity International provides loans to people who want to start their own entrepreneurial ventures.[20] But it does so in an innovative way that not only contributes to business sustainability, but also enhances the social and economic sustainability of the communities in which they operate.

Their approach is simple, but effective. Opportunity International provides small loans (of around A$100) to impoverished people in developing countries, which they can then use to start their own businesses to support themselves and their families. For instance, loan recipients might buy cooking equipment to start a food stall, a sewing machine to make clothing or bags, seeds to plant a vegetable plot, or a boat to fish from. When the businesses are up and running, the loans are repaid (in fact, 98 per cent of loans *are* repaid, and repaid within a year!) and the repaid money is then lent out again to fund another business. As the ventures grow, they provide employment to other local people and supply chains

that support other businesses. For instance, one entrepreneur in the Philippines started a successful piggery, and now provides scholarships for local children and gives piglets to local families in need so they can start their own piggeries to support themselves. Reliable income means the venture founders and their employees can then afford to buy food, clean water, clothing and housing, stimulating more economic benefits. Opportunity International also employs local partners to provide group-based support and training to loan recipients, which fosters connections, support and the sharing of business expertise across the local community.

What’s in a full business plan?

A good business plan is valuable because it pulls together all the elements of the entrepreneur’s vision into a single coherent document. It serves as a blueprint and road map for operating the business. If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six main areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

- **Executive summary.** The executive summary summarises the key points about the proposed entrepreneurial venture. These might include a brief mission statement; primary goals; brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; nature of the business; concise product or service descriptions; brief explanations of market niche, competitors and competitive advantage; proposed strategies; and selected key financial information.
- **Analysis of opportunity.** This section details the perceived opportunity, which essentially includes: (1) describing the demographics of the target market; (2) describing and evaluating industry trends; and (3) identifying and evaluating competitors.

- **Analysis of the context.** The context analysis examines the broad external changes and trends taking place in the economic, political–legal, technological and global environments that are relevant to the industry and market in question.
- **Description of the business.** This section describes how the entrepreneurial venture is going to be organised, launched and managed. It includes a thorough description of the mission statement; a description of the desired organisational culture; marketing plans (e.g. overall marketing strategy, pricing, sales tactics, advertising and promotion tactics); product development plans; operational plans (e.g. facilities needed, equipment, workflows); human resource plans (e.g. current and future staffing needs, compensation and benefits, and training needs); and an overall schedule and timetable of events.
- **Financial data and projections.** Financial plans should contain projected income statements, pro forma cash flow analysis (monthly for the first year and quarterly for the next two), pro forma balance sheets, breakeven analysis and cost controls for at least three years. All financial projections and analyses should include explanatory notes, especially where the data seem contradictory or questionable.
- **Supporting documentation.** This includes charts, graphs, tables, photographs or other visual tools, and may include information (personal and work-related) about the key participants in the entrepreneurial venture.

> Entrepreneurs who write a **formal business plan** are 16 per cent more likely to create a viable venture![22]

CHOOSE
CH2

Entrepreneurship leads to innovations such as the new Choose Water eco-friendly and completely biodegradable water bottle developed by James Longcroft. The plastic-free, single-use bottle is made of recycled and natural materials that decompose within three weeks. Longrcroft hopes that his innovation will replace single-use plastic bottles and help stop plastic waste pollution of the world's oceans.

John Stillwell/PA Wire/AP Images

What’s involved in organising an entrepreneurial venture?

Learning outcome 16.3 Explain how entrepreneurial ventures can be organised.

The main organising issues an entrepreneur must address are the legal forms of organisation, organisational design and structure, and human resource management.

What are the legal forms of organisation for entrepreneurial ventures?

The first organising decision that an entrepreneur must make is the legal form of the venture. The two primary factors affecting this decision are taxes and legal liability. The right choice can protect the entrepreneur from legal liability as well as save tax dollars, in both the short run and the long run.

The three basic ways to organise an entrepreneurial venture are sole proprietorship, partnership and company. A **sole proprietorship** is a profit-oriented business usually operated by a single person. Such businesses are easy to start, run and terminate, but because they have unlimited liability the owner's personal assets can be used to settle business debts. A **partnership** is a business operated by two or more people who agree to each contribute resources and split profits. In a general partnership all partners contribute to the day-to-day running of the business and are liable for its debts. In a limited partnership, 'limited' partners don't participate in operational management and their liability is limited to the amount of their investment in the business. A **company** is legally distinct from its owners. This means that if the company is wound up, the owner's

personal assets can’t be used to settle company debts (unless the owner continued to operate the business knowing it was insolvent).

sole proprietorship

A profit-oriented business usually operated by a single person. Because the business has unlimited liability, the owner’s personal assets can be used to settle business debts

partnership

A business operated by two or more people who agree to each contribute resources and split profits

company

A business entity that is legally distinct from its owners

What type of organisational structure should entrepreneurial ventures use?

The choice of an appropriate organisational structure is also an important decision when organising an entrepreneurial venture. Initially, the organisational structure may be very simple – one person does whatever is needed. As an entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, they must bring employees on board and decide how to structure the organisation to effectively and efficiently carry out its activities. Many entrepreneurs are greatly concerned about keeping that ‘small company’ atmosphere alive even as the venture grows and evolves into a more structured arrangement. But having a structured organisation doesn’t necessarily mean giving up flexibility, adaptability and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

Decisions about organisational design will determine whether an entrepreneur designs a more mechanistic or organic organisational structure. A mechanistic structure would be preferable when:

- cost efficiencies are critical to the venture’s competitive advantage

- more control over employees’ work activities is important
- the venture produces standardised products in a routine fashion
- the external environment is relatively stable and certain.

An organic structure would be most appropriate when:

- innovation is critical to the organisation’s competitive advantage
- rigid approaches to dividing and coordinating work aren’t necessary, as in smaller organisations
- the organisation produces customised products in a flexible setting
- the external environment is dynamic, complex and uncertain.

What human resource management (HRM) issues do entrepreneurs face?

As employees are brought on board, two HRM issues of particular importance are employee recruitment and employee retention.

- **Employee recruitment.** Recruiting new employees is one of the biggest challenges that entrepreneurs face. Entrepreneurs, particularly, look for high-potential people who can perform multiple roles during various stages of venture growth. They look for individuals who 'buy into' the venture's entrepreneurial culture – individuals who have a passion for the business. They want people who are exceptionally capable and self-motivated, flexible, multiskilled and who can help grow the entrepreneurial venture. In contrast to corporate managers, entrepreneurs tend to focus more on matching characteristics of the person to the values and culture of the organisation.
- **Employee retention.** An entrepreneur wants to keep the people they have hired and trained. Rewards are one key way to do this. Traditional organisations are more likely to view rewards in monetary terms (base pay, benefits and incentives), while smaller entrepreneurial firms are more likely to take a total rewards

perspective. For these firms, rewards also include psychological rewards, learning opportunities and recognition.

A question of ethics: Being real about success

Operating an entrepreneurial venture can be very intense, especially in the early stages. Pressure and high stakes can foster all kinds of ethical challenges for entrepreneurs.[23] For example, when launching a venture, entrepreneurs may really need the support of friends, family and business partners. It can be tempting to underestimate (or downplay) how much effort, patience and tolerance they'll have to contribute to the venture.

Another challenge is generating enough early success to keep investors happy and attract more financial support. Some entrepreneurs have been known to send their employees out to buy up large quantities of their company's product in order to inflate the sale performance (and revenues) of their venture. Others have over-reported the performance of their products (or under-reported their flaws) in order to keep customers and investors happy: in one case the company did end up being able to deliver on its big promises, but only due to an unexpected last-minute technological breakthrough!

Discuss this

- Entrepreneurs often have to generate support for their products and ventures on the basis of their potential, rather than their actual performance. How can they do this ethically?

What’s involved in leading an entrepreneurial venture?

> Learning outcome 16.4 Discuss what’s involved in leading an entrepreneurial venture.

As an entrepreneurial venture grows and people are brought on board, an entrepreneur takes on the role of a leader. This includes motivating and empowering their staff, and establishing employee teams.

How can entrepreneurs motivate employees?

Having motivated employees is an important goal for any entrepreneur, and employee empowerment is an important motivational tool entrepreneurs can use. Employee empowerment – that is, giving employees the power to make decisions and take actions on their own – is an important motivational approach because successful entrepreneurial ventures must be quick and nimble, ready to pursue opportunities and go off in new directions. Empowered employees can provide that flexibility and speed. When employees are empowered, they often display stronger work motivation, better work quality, higher job satisfaction and lower turnover.

To empower his employees, Tristan White, founder of The Physio Co, set up ten-year and three-year business goals so staff had a vision to motivate and inspire them. He also adjusted his own role ‘to make the complex as simple as possible’ so his team can stay focused on achieving the company’s core purpose.

Photo courtesy of Tristan White

Many entrepreneurs are reluctant to empower their employees, because their life is often tied up in the venture they’ve built from the ground up. But if they are to continue to grow their entrepreneurial

venture, eventually they will have to hand over more responsibilities to employees. For many entrepreneurs, empowering employees is a gradual process. It may begin by using participative decision making and having employees provide input into decisions, which provides a way to begin tapping into the collective array of employees' talents, skills, knowledge and abilities. Delegation – assigning certain decisions or specific job duties to employees – is a further step towards empowering employees. Fully empowering employees means redesigning their jobs so that they have discretion over the way they do their work. It's allowing employees to do their work effectively and efficiently by using their creativity, imagination, knowledge and skills.

If an entrepreneur implements employee empowerment properly, results can be impressive for the entrepreneurial venture and for the empowered employees. The business can enjoy significant productivity gains, quality improvements, more satisfied customers, increased employee motivation and improved morale. Employees can enjoy the opportunities to do a greater variety of work that is more interesting and challenging.

> **Letting go** . . . can be difficult for an entrepreneur.

Managing for diversity and inclusion: Using diversity to support diversity

Social entrepreneurs use entrepreneurial thinking and entrepreneurial ventures to create social good and foster social change. So, it's not surprising that some do that by starting entrepreneurial ventures to provide new and different types of support for diversity. For example:[24]

- **Courtney Bowie**, a lawyer in NSW, realised that the legal profession wasn't supportive and accommodating of female lawyers, especially those who wanted to return to work after having children. So, she created a legal practice called Her Lawyer to 'offer women a career in law in a non-traditional way', which she has dedicated to 'empowering ambitious women in business and providing a space for a team of female lawyers to thrive'.
- **Tracy Westerman**, a clinical psychologist and proud Nyamal woman from the Pilbara region of Western Australia, founded Indigenous Psychological Services (IPS) in 1998 to provide treatment and intervention services tailored specifically to the needs of Indigenous Australians. These services have included Whole-of-Aboriginal-

Community Mental Health and Suicide Intervention programs, Aboriginal Mental Health Training programs, and psychological tests developed specifically for Aboriginal people. All of IPS's training programs have been developed for Aboriginal people by Aboriginal people. Professor Westerman has also recently funded a scholarship to support Aboriginal people wishing to study psychology.

- **Jane Morrell**, a businesswoman in Victoria, founded Carer Solutions Australia to 'create a service that empowers disabled people to take control of their own destinies' by giving them more choice and control over who looks after them. Through Carer Solutions Australia, individuals can directly employ the support workers they want to have care for them. The service handles all of the administration of the employment relationship, so it is cheaper, simpler and easier for individuals to have the carers they want rather than have to deal with a care agency.

How can entrepreneurs be leaders?

The entrepreneur’s ability to articulate a coherent, inspiring and attractive vision of the future is a key test of their leadership. But if an entrepreneur can do this, the results can be worthwhile. A study contrasting visionary and non-visionary companies showed that visionary companies outperformed the non-visionary ones by six times on standard financial criteria, and their stocks outperformed the general market by 15 times.

Developing and using teams is necessary because technology and market demands are forcing entrepreneurial ventures to make better products more quickly and more cheaply. Tapping into the collective wisdom of a venture’s employees and empowering them to make decisions just may be one of the best ways to adapt to change. In addition, a team culture can improve the overall workplace environment and morale. The three most common types of employee work teams in entrepreneurial ventures are empowered teams (teams that have the authority to plan and implement process improvements), self-directed teams (teams that are nearly autonomous and responsible for many managerial activities) and cross-functional teams (work teams composed of individuals from various specialties who work together on various tasks). For team

efforts to work, however, entrepreneurs must shift from the traditional command-and-control style to a coach-and-collaboration style.

> It’s a big switch from captaining the ship to **coaching the team**!

What’s involved in controlling entrepreneurial ventures?

> Learning outcome 16.5 Discuss what’s involved in controlling an entrepreneurial venture.

Entrepreneurs must look at controlling their venture’s operations in order to survive and prosper in both the short run and the long run. The unique control issues that entrepreneurs face include managing growth, managing downturns, exiting the venture, and managing personal life choices and challenges.

How is growth managed?

Growth is a natural and desirable outcome for entrepreneurial ventures, but growing successfully doesn’t occur randomly or by luck. Successfully pursuing growth typically requires an entrepreneur to plan, organise and control for growth. This includes making important decisions about how quickly the organisation will attempt to grow, when it will focus on growth and when it will focus on consolidation, and what sort of growth strategy it will pursue. (See the chapter on planning.)

How are downturns managed?

When an entrepreneurial venture faces times of trouble, what can be done? How can downturns be managed successfully? The first step is recognising that a crisis is brewing. An entrepreneur should be alert to the warning signs of a business in trouble. These might be inadequate or negative cash flow, excess number of employees, unnecessary and cumbersome administrative procedures, fear of conflict and of taking risks, tolerance of work incompetence, lack of a clear mission or goals, and ineffective or poor communication within the organisation.

It's important to have an up-to-date plan for covering crises and downturns. It's like mapping exit routes from your home in case of a fire: you want to be prepared *before* an emergency hits. This plan should focus on providing specific details for controlling the most fundamental and critical aspects of running the venture – cash flow, accounts receivable, costs and debt. Beyond having a plan for controlling the venture's critical inflows and outflows, other actions would involve identifying specific strategies for cutting costs and restructuring the venture.

What's involved with exiting the venture?

Entrepreneurs may decide to exit their venture for a number of reasons. It may be that they hope to capitalise financially on the investment in the venture – called **harvesting** – or that the venture is facing serious performance problems, or just that the entrepreneur wants to focus on other pursuits (personal or business). The issues involved with exiting the venture include choosing a proper business valuation method and knowing what's involved in the process of selling a business.

> ***harvesting***
>
> Exiting a venture when an entrepreneur hopes to capitalise financially on the investment in the venture

Although the hardest part of preparing to exit a venture may involve valuing it, other factors are also important. These include being prepared, deciding who will sell the business, considering the tax implications, screening potential buyers and deciding whether to tell

employees before or after the sale. The process of exiting the entrepreneurial venture should be approached as carefully as the process of launching it. If the entrepreneur is selling the venture on a positive note, they want to realise the value built up in the business. If the venture is being exited because of declining performance, the entrepreneur wants to maximise the potential return.

Why is it important to think about managing personal challenges as an entrepreneur?

> Learning outcome 16.6 Discuss how entrepreneurs can manage personal challenges.

Being an entrepreneur is extremely exciting and fulfilling, but also extremely demanding. It involves long hours, difficult demands and high stress. Entrepreneurs are focused, persistent, hardworking and intelligent. Because they put so much of themselves into launching and growing their entrepreneurial ventures, many may neglect their personal lives. Entrepreneurs often have to make sacrifices to pursue their entrepreneurial dreams. However, they can make it work if they can balance their work and personal lives. But how is this done?

One of the most important things an entrepreneur can do is *become a good time manager*. This requires prioritising what needs to be done, and using a planner (daily, weekly, monthly) to help schedule priorities. Identifying important duties and distinguishing them from those that aren't so important actually makes an entrepreneur more efficient and effective. In addition, part of being a good time manager is delegating to trusted employees those decisions and actions the entrepreneur doesn't have to be personally involved in. Entrepreneurs

who delegate effectively will see their personal productivity levels rise.

Another option is to *seek professional advice* in those areas of business where it's needed. Although entrepreneurs may be reluctant to spend scarce cash, the time, energy and potential problems saved in the long run are well worth the investment. Competent professional advisers can provide entrepreneurs with information that will enable them to make more intelligent decisions.

It's also important to *deal with conflicts* as they arise – both workplace and family conflicts. If an entrepreneur doesn't deal with conflicts, negative feelings are likely to crop up and lead to communication breakdowns. When communication falls apart, vital information may get lost and people (employees *and* family members) may start to assume the worst. It can turn into a nightmare situation that feeds on itself. The best strategy is to deal with conflicts as they come up. Talk, discuss, argue (if you must), but don't avoid the conflict or pretend it doesn't exist.

Another strategy to help balance between work and personal life is to *develop a network of trusted friends and peers.* Having a group of people to talk with is a good way for an entrepreneur to think through problems and issues. The support and encouragement offered by these people can be an invaluable source of strength for an entrepreneur.

Finally, *recognise when stress levels are too high*. Entrepreneurs like to make things happen and they thrive on working hard. Yet, as we saw in the chapter on managing change and innovation, too much stress can lead to significant physical and emotional problems. Entrepreneurs have to learn to recognise when stress is overwhelming them and then do something about it. After all, what's the point of building a thriving entrepreneurial venture if you're not around to enjoy it?

Review

Chapter 16 summary

16.1 Explain what entrepreneurship is and who engages in it. Entrepreneurship is engaging in dynamic, risk-taking, creative, growth-oriented behaviour. The two main ways people engage in entrepreneurship are by forming an entrepreneurial venture or engaging in intrapreneurship. Entrepreneurial ventures pursue opportunities, are characterised by innovative practices, and have growth and profitability as their main goals. Intrapreneurship is the creation of innovative products and services by developing entrepreneurial cultures within existing organisations.

Entrepreneurs are people willing to take risks to pursue opportunities that others either fail to recognise or view as problems or threats. Opportunity-based entrepreneurs are people who form a new venture in order to pursue an opportunity. Necessity-based entrepreneurs create new ventures because they have few or no other employment options. Social entrepreneurs use entrepreneurial principles to solve social problems or to create social change, such as by increasing access to education and technology or by reducing pollution. Serial entrepreneurs have one entrepreneurial venture after another. Portfolio entrepreneurs operate several ventures at once.

16.2 Describe what's involved in planning an entrepreneurial venture.

Planning an entrepreneurial venture involves defining the entrepreneurial opportunity and then assessing the feasibility of the venture. A feasibility assessment includes defining the venture's competitive context, identifying its competitive advantages, and assessing financing options. The entrepreneur then writes the business plan to summarise the business opportunity and articulate how it will be exploited.

16.3 Explain how entrepreneurial ventures can be organised
Organising an entrepreneurial venture involves choosing its legal form and organisational structure and establishing its human resource management. Recruiting and retaining employees are particularly crucial HRM activities.

16.4 Discuss what's involved in leading an entrepreneurial venture.
Leading an entrepreneurial venture involves developing a vision for the organisation, motivating and empowering staff, and implementing teams.

16.5 Discuss what's involved in controlling an entrepreneurial venture.
Controlling an entrepreneurial venture requires particular strategies for managing growth, downturns, the entrepreneur's personal life choices and challenges, and their exit from the venture.

16.6 Discuss how entrepreneurs can manage personal challenges.

Entrepreneurs can manage the personal demands of running a venture by becoming a good time manager, getting professional advice about their business, dealing with conflicts, developing support networks of trusted friends and peers, and ensuring that they manage their stress levels.

Discussion questions

16.1 How are entrepreneurial ventures, small businesses and self-employed persons similar? Different?
16.2 Why are necessity-based entrepreneurs also known as ‘accidental’, ‘unintended’ or ‘forced’ entrepreneurs?
16.3 Describe some of the personality characteristics that researchers have associated with being an entrepreneur.
16.4 How can an entrepreneur develop a new idea for a business venture?
16.5 Why is it important to assess the feasibility of an entrepreneurial venture before developing a full business plan?
16.6 If you were starting an entrepreneurial venture, would you create a sole proprietorship, a partnership or a company? Why?
16.7 Think of an entrepreneur who has created a compelling vision of what their organisation was created to achieve. How have they done that?
16.8 Why do you think many entrepreneurs find it hard to delegate and empower their employees?
16.9 How can an entrepreneur plan for downturns in business activity?
16.10 How can entrepreneurs balance the demands of their personal and work lives?

Management skills spotlight: Developing grit

Successful entrepreneurs have perseverance and passion for long-term goals. They have strength and resilience, work hard, and maintain effort and interest even when facing failure and adversity. In other words, they have grit and determination.[25] Grit is a trait that combines qualities such as optimism, self-discipline and drive. It means being able to stay focused and to work hard even when facing seemingly endless obstacles.

Experiential exercise

Entrepreneurs need to be very proactive about creating the conditions they need to pursue their dreams. But that doesn't come naturally to all of us! In this exercise, you're going to explore how proactive you are.

1. For a whole day, take note of any time you encounter an obstacle that prevents you from going after what you want. It could be as simple as not being able to find a parking space where you want to park. Each time you encounter an obstacle, notice your response. Do you react with acceptance and just 'go with the flow'? Or do you try to work around the obstacle, or come up with an alternative way to get what you want?
2. Now reflect on your responses.
    a. Describe what happened when you encountered an obstacle. Did you feel frustrated and defeated? Or did you feel energised to find another solution?
    b. Interpret your response. Why do you think you reacted the ways that you did? When you just 'went with the flow', why was that? What held you back from trying to change the situation?
    c. Evaluate your response. What conclusions have you come to about your levels of proactivity?
    d. How could you use these insights in future? Do they give you any ideas about how you could help yourself

be more proactive?

Case application: Creatively making a better world

While Daniel Flynn was at university, he learnt two things that shocked him: (1) 900 million people in the world couldn't access safe drinking water; and (2) in Australia, where drinkable water is free, people spent $600 million a year on bottled water. So, in 2008, Daniel established Thankyou Water, a social enterprise that sells bottled water in order to fund safe water projects in developing countries. Within 10 years the company had also developed Thankyou Food, Thankyou Body Care and Thankyou Baby Products as a way to reach more customers, sell more products and help more people.[26]

From day one, Daniel knew customers needed to know they were making a difference by buying Thankyou products. So, the company created the Track Your Impact app to show customers what they were helping to achieve. Customers key the unique code on each Thankyou product into the app and receive detailed information, including GPS coordinates, about the water, hygiene or food aid project the customer's purchase will contribute to.

> **Make big dreams come true**.

As the company has grown, Daniel has learnt a lot about how to run a successful organisation. ‘My goal is to release people to step up and bring their own dream and passion to what we do . . . A good idea doesn’t guarantee success . . . The value is in the execution of that idea and that’s where your focus needs to be. This is why it’s important to surround yourself with a great team who support each other . . . Always start with the thought: “If we had no limitations, we would . . .” Then work from there and remind yourself every day of those big objectives.’

Thankyou has certainly achieved some big goals: in its first decade it helped over 545,000 people access safe water, sanitation and hygiene services, fed over 132,000 people, and provided maternal and child health services to over 77,000 individuals. But by 2020 the company had realised that ‘our track record for launching ideas was great, but our track record for sustaining those ideas at scale . . . was average’. So, Thankyou pivoted in a new direction and relaunched its business model to manufacture Thankyou products through licensing arrangements.

Discussion questions

16.11 What kind of entrepreneur is Daniel Flynn?
16.12 What opportunities did Daniel identify to (a) create a change in the environment and (b) generate a competitive advantage by making Thankyou stand out from other charities and not-for-profit organisations?

16.13 What sort of structure do you think Thankyou would use?

16.14 Describe Daniel's leadership approach.

16.15 What challenges might Thankyou face as it grows?

Running case: Holiday home helpers: A new (ad)venture

On Nate's last day, Mia rang him. 'It's been great to work with you. What's next for you?'

'I've started a new business,' said Nate. 'It's a new kind of service for holiday home owners.'

'What is it?' asked Mia.

'Finding properties for them to buy that would be suitable to rent out as holiday homes,' said Nate. 'Over the last few years, I've worked with a few owners who have called me when they wanted to buy a new property. Some were just looking for advice, but quite a number have actually asked me to go and look over potential properties and tell them which one had the most potential.'

'What a great niche!' said Mia. 'I can see how you could really leverage the experience and expertise you've developed from working here!'

'Exactly,' said Nate. 'There are a few real estate agents around this region that will help you find a house that has the number of bedrooms and bathrooms you want, is in a good

location, etc. But I can advise them about a whole range of other things. For instance, I can tell them what sort of renovations and redecorations they would need to do to get lots of guests, how they can make their property stand out from other holiday homes like it, and what sort of maintenance the property will need. Also, how easy or hard the property is going to be to keep really clean and well-presented, and what it will cost them to do that.'

'So, are you doing this on your own?' asked Mia.

'No, I've formed a company and I have two other people working for me as subcontractors. Suzie has a design background and provides the advice about how the property could be upgraded and presented. Eric has a background in building and provides advice about structural work and maintenance.'

'Sound like you all complement each other well,' said Mia.

'Yes,' said Nate. 'We each have our own area of expertise and responsibility, so we can each just get on with what we are good at. I'm responsible for most of the liaison with clients, so I decide what jobs we take on and which ones we don't. But once we take a client on, each of us makes their own decisions about what we provide for them. For instance, Suzie will work out with them whether they want to go for a fairly safe and conservative presentation of their home, or whether they want to do something really different and special. From there, she works out what sorts of ideas she will present to

them. That also keeps me from taking on too much myself, because I can delegate a lot of the advice provision to Suzie and Eric, and as they are subcontractors, they only get paid for what they actually deliver! That also means that as the company grows they can take on more work if they want to, or I can bring in other contractors if I need to.'

Discussion questions

16.16 What type of entrepreneur is Nate?

16.17 What advantages are there for Nate in operating his business as a company, rather than as a partnership?

16.18 How has Nate used empowerment in his leadership approach?

16.19 How is Nate managing the future growth of his venture?

Endnotes

1 This chapter is based on J. L. Roberts, ‘Beyond Definition’, *Newsweek*, 28 July 2003, pp. 40–3; ‘Jobless Entrepreneurship Tarnishes Steady Rate of US Startup Activity, Kauffman Study Shows’, **www.kauffman.org**, 7 March 2011; ‘Frequently Asked Questions’, *US Small Business Administration*, September 2008; D. E. Gumpert, ‘The Right Business Plan for the Job’, *BusinessWeek Online*, 7 January 2008; W. H. Stewart, ‘Risk Propensity Differences between Entrepreneurs and Managers: A Meta-Analytic Review’, *Journal of Applied Psychology*, February 2001, pp. 145–53; I. O. Williamson, ‘Employer Legitimacy and Recruitment Success in Small Businesses’, *Entrepreneurship Theory and Practice*, Fall 2000, pp. 27–42; R. L. Heneman, J. W. Tansky and S. M. Camp, ‘Human Resource Management Practices in Small and Medium-Sized Enterprises: Unanswered Questions and Future Research Perspectives’, *Entrepreneurship Theory and Practice*, Fall 2000, pp. 11–26; T. L. Hatten, *Small Business: Entrepreneurship and Beyond* (Upper Saddle River, NJ: Prentice Hall, 1997), p. 5; L. W. Busenitz, ‘Research on Entrepreneurial Alertness’, *Journal of Small Business Management*, October 1996, pp. 35–44; J. M. Crant, ‘The Proactive Personality Scale as Predictor of Entrepreneurial Intentions’, *Journal of Small Business Management*, July 1996, pp. 42–9; J. C. Collins and J. I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: HarperBusiness, 1994); P. B. Robinson, D. V. Simpson, J. C. Huefner and H. K. Hunt, ‘An

Attitude Approach to the Prediction of Entrepreneurship', *Entrepreneurship Theory and Practice*, Summer 1991, pp. 13–31; P. F. Drucker, *Innovation and Entrepreneurship: Practice and Principles* (New York: Harper & Row, 1985); and J. W. Carland, F. Hoy, W. R. Boulton and J. C. Carland, 'Differentiating Entrepreneurs from Small Business Owners: A Conceptualization', *Academy of Management Review*, vol. 9, no. 2 (1984), pp. 354–9.

2 D. Powell, 'Thirteen Inspiring Women in Australian Startups and Small Business', *Smart Company*, 8 March 2019; A. Preistley, 'Why Mikaela Jade Is One Entrepreneur to Watch in 2017', *Smart Company*, 22 December 2016; D. Powell, 'How Mikaela Jade Built Augmented Reality Startup Indigital from Deep in Kakadu National Park', *Smart Company*, 12 March 2018; and Mickalea Jade, 'Indigital Schools Webinar', 26 November 2020, **https://www.youtube.com/watch?v=PlCL9yLM2kc**, posted 6 December 2020.

3 J. R. Schermerhorn, *Exploring Management*, 2nd edn (New York: John Wiley & Sons, 2010), p. 400.

4 J. W. Carland, F. Hoy, W. R. Boulton and J. C. Carland, 'Differentiating Entrepreneurs from Small Business Owners: A Conceptualisation', *Academy of Management Review*, vol. 9, no. 2 (1984), pp. 354–9.

5 J. W. Carland, F. Hoy, W. R. Boulton and J. C. Carland, 'Differentiating Entrepreneurs from Small Business Owners: A Conceptualisation', *Academy of Management Review*, vol. 9, no. 2 (1984), pp. 354–9.

6 G. Rodrigues, 'Intrapreneurship in a Fast Growing Economy: A Study of the Emirates of Dubai', *The Business Review*, Summer 2010, pp. 144–51.

7 C. Molina and J. Callahan, 'Fostering Organizational Performance: The Role of Learning and Intrapreneurship', *Journal of European Industrial Training*, vol. 33, no. 5 (2009), pp. 388–400.
8 'About Us', **https://www.boostjuice.com.au/about-boost-juice**, accessed 24 September 2020.
9 J. Campling, D. Poole, R. Wiesner and J. R. Schermerhorn, *Management*, 2nd Asia Pacific edn (Brisbane: John Wiley & Sons, 2006), p. 36.
10 See C. Christensen, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* (Boston: Harvard Business Review Press, 1997); and 'What Disruptive Innovation Means: *The Economist* Explains', *The Economist Online*, **www.economist.com**, 25 January 2015.
11 A. Malach-Pines, A. Sadeh, D. Dvir and O. Yafe-Yanai, 'Entrepreneurs and Managers: Similar Yet Different', *The International Journal of Organizational Analysis*, vol. 10, no. 2 (2002), pp. 172–90.
12 C. Liang and P. Dunn, 'Entrepreneurial Characteristics, Optimism, Pessimism and Realism – Correlation or Collision?', *Journal of Business and Entrepreneurship*, March 2010, pp. 1–21.
13 J. Block and P. Sandner, 'Necessity and Opportunity Entrepreneurs and Their Duration in Self-Employment: Evidence from German Micro Data', *Journal of Industrial Competitive Trade*, vol. 9 (2009), pp. 117–37.
14 J. R. Schermerhorn, *Exploring Management*, 2nd edn (New York: John Wiley & Sons, 2010).
15 M. Meece, 'On to Plan B: Starting a Business', *New York Times Online*, 23 August 2009.

16 See J. Mair, J. Robinson and K. Hockerts, *Social Entrepreneurship* (Basingstoke, UK: Palgrave, 2006); and L. C. Prierto, J. K. Osiri and J. Gilmore, Jr, 'Developing Social Entrepreneurs for Developing Pan-African Nations', *Business Renaissance Quarterly*, Summer 2009, pp. 41–57.

17 US Bureau of Labor Statistics, 'Glossary', **www.bls.gov**, accessed 26 March 2018.

18 D. P. Forbes, 'Managerial Determinants of Decision Speed in New Ventures', *Strategic Management Journal*, vol. 26, issue 4 (2005), pp. 355–66.

19 M. Penn, 'Small Trends Can Be Big', *Wall Street Journal*, 17–18 March 2018, p. C4.

20 Opportunity International, 'About Us', **www.opportunity.org.au**, accessed 24 September 2020; and Opportunity International, 'What We Do', **www.opportunity.org.au**, accessed 24 September 2020.

21 J. Carrigan, 'What I Wish I Knew . . . Three Entrepreneurs Tell All', Business Victoria, **www.business.vic.gov.au/case-studies**, 18 January 2016, accessed 21 October 2017.

22 F. J. Greene and C. Hopp, 'Are Formal Planners More Likely to Achieve New Venture Viability? A Counterfactual Model and Analysis', *Strategic Entrepreneurship Journal*, vol. 11, issue 1 (2017), pp. 36–60.

23 K. O. Hanson, 'Start-ups Behaving Badly', *The Australian*, 24 November 2015.

24 'Courtney Bowie, Her Lawyer', **https://www.telstrabusinesswomensawards.com/winners-and-finalists**, accessed 24 September 2020; 'About IPS', **https://**

indigenouspsychservices.com.au/about/ips-tracy-westerman, accessed 24 September 2020; 'Adjunct Professor Tracy Westerman, IPS', **https://www.telstrabusinesswomensawards.com/winners-and-finalists**, accessed 24 September 2020; and 'Jane Morrell, Care Solutions Australia', **https://www.businessnewsaus.com.au/articles/australia-s-top-100-young-entrepreneurs-21-30.html**, 19 December 2019, accessed 24 September 2020.

25 Based on A. Duckworth, C. Peterson, M. Mathews and D. Kelly, 'Grit: Perseverance and Passion for Long Term Goals', *Journal of Personality and Social Psychology*, vol. 92, no. 6 (2007), pp. 1087–101; J. Stillworth, 'You Can Train Yourself to Have More Grit', *Inc. Online*, 26 September 2014; F. Hoque, 'How Entrepreneurs Can Develop Grit: The Most Important Trait of Successful People', *Business Insider Online*, 8 October 2014; and P. Campbell, 'How to Get True Grit', *The Huffington Post Online*, 16 February 2013.

26 Thankyou company website, **https://thankyou.co**, accessed 13 March 2017; Social Traders, 'Social Enterprise Awards', http://socialenterpriseawards.com.au, accessed 4 December 2014; K. White, 'Where Does the Money Go? Thankyou Group Wants to Track the Impact of Charity Spending', www.startupsmart.com.au, accessed 4 December 2014; 'Track Your Impact (VIC) – 2014', **http://anthillonline.com**, accessed 4 December 2014; S. Kimmorley, 'The Best Advice from 26 Successful Aussie Entrepreneurs for Small Business Owners', *Business Insider*, 7 June 2014; S. White, 'Meet the Boss – from Student to CEO', *Sydney Morning Herald*, 23 May 2014; M. Bleby, 'Piling on the Social Pressures', *BRW*, 18–24 July 2013, pp. 47–9; and 'Developing the

Thankyou Licence: This Changes Everything', **www.thankyou.co/about/we-love-products**, accessed 23 October 2020.

Appendix A brief history of management's roots

Our theories about management advance as we develop new ideas, apply them and evaluate the outcomes. In each chapter, our Classic Concepts in Today's Organisations box highlights a key person and their contributions to contemporary management concepts. In this appendix, you'll find an annotated timeline that discusses key milestones in the development of management theory. We conclude by discussing how managers can choose between different theories and approaches for working out which ones might be most suitable to apply to their organisations.

Learning outcomes

A.1 Identify some historical examples of management practices.

A.2 Describe the behavioural, classical, quantitative and contemporary approaches to management.

A.3 Explain how managers can determine which approaches to management they should use.

Early management (3000 BCE–mid-1800s)

Learning outcome A.1 Identify some historical examples of management practices.

Management has been practised for a long time. Organised endeavours directed by people responsible for planning, organising, leading and controlling activities have existed for thousands of years. Regardless of what these individuals were called, someone had to perform those functions.

Early management

3000–2500 BCE

The Egyptian pyramids are proof that projects of tremendous scope, employing tens of thousands of people, were completed in ancient

times.[1] It took more than 100,000 workers some 20 years to construct a single pyramid. Someone had to plan what was to be done, organise people and materials to do it, make sure those workers got the work done, and impose some controls to ensure that everything was done as planned. The people who did that were *managers*.

Stephen Studd/Getty Images

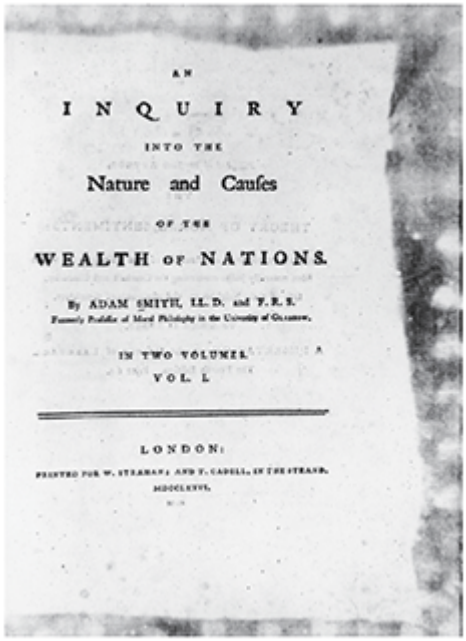
1400s

At the arsenal of Venice, warships were floated along the canals, and at each stop, materials and riggings were added to the ship.[2] Sounds a lot like a car ‘floating’ along an assembly line, doesn’t it? In addition, the Venetians used warehouse and inventory systems to keep track of materials, human resource management functions to manage the labour force (including wine breaks), and an accounting system to keep track of revenues and costs.

Antonio Natale/Getty Images

1776

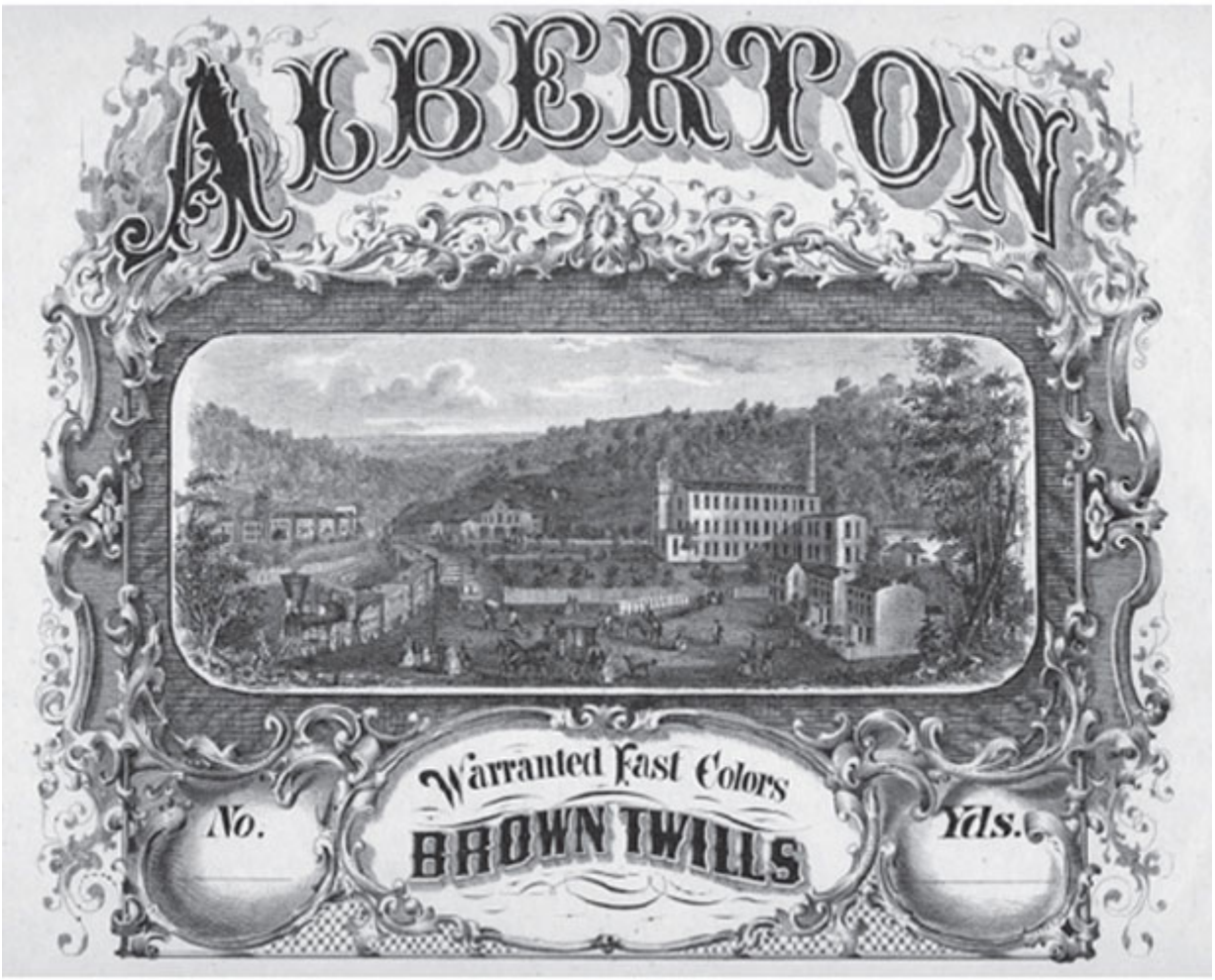
In this year, Adam Smith's *The Wealth of Nations* was published. In it, he argued the economic advantages of the **division of labour (or job specialisation)** – that is, breaking down jobs into narrow, repetitive tasks. Division of labour dramatically increased individual productivity. Job specialisation continues to be a popular way to determine how work gets done in organisations. However, as you'll see in the chapter on organisational structure and design, it does have its drawbacks.


AN
INQUIRY
INTO THE
Nature and Causes
OF THE
WEALTH OF NATIONS.
By ADAM SMITH, LL.D. and F.R.S.
IN TWO VOLUMES.
VOL. I.
LONDON:

Fotosearch/Stringer/Getty Images

1780s–mid-1800s

The **Industrial Revolution** may be the most important pre-20th-century influence on management. Why? Because with the industrial age came the birth of the corporation. With large, efficient factories pumping out products, someone needed to forecast demand, make sure adequate supplies of materials were available, assign tasks to workers, and so on. Again, that someone was managers! It was indeed a historical event for two reasons: (1) because of all the organisational aspects (hierarchy, control, job specialisation, and so on) that became a part of the way work was done; and (2) because management had become a necessary component to ensure the success of the enterprise.



Archive Photos/Getty Images

Behavioural approach (late 1700s–present)

Learning outcome A.2 Describe the behavioural, classical, quantitative and contemporary approaches to management.

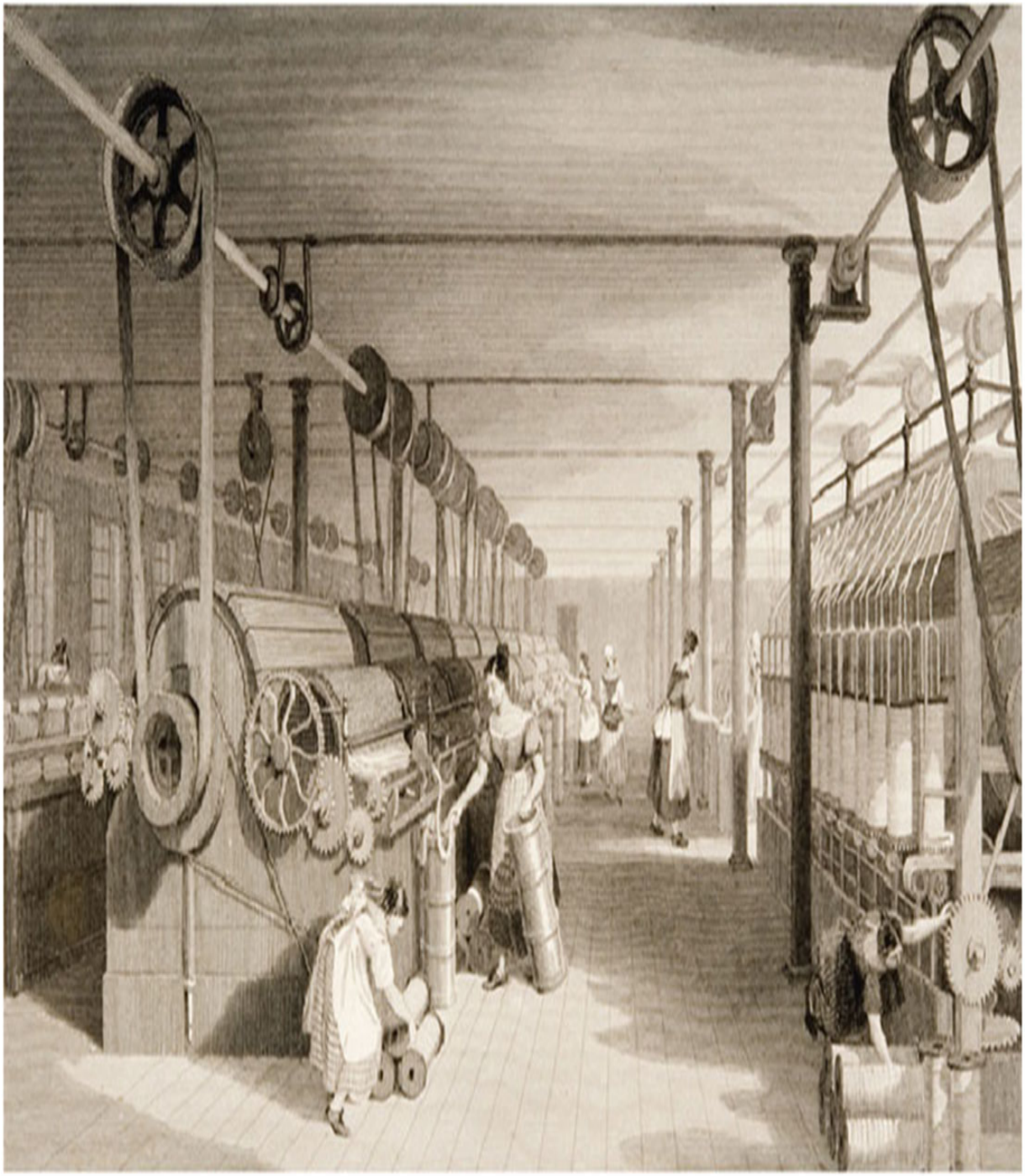
The behavioural approach to management focused on the actions of workers. How do you motivate and lead employees in order to get high levels of performance?

Behavioural approach

Late 1700s–early 1900s

Managers get things done by working with people. Several early management writers recognised how important people are to an organisation's success.[3] For example, Robert Owen, who was concerned about deplorable working conditions, proposed an

idealistic workplace. Hugo Munsterberg, a pioneer in the field of industrial psychology, suggested using psychological tests for employee selection, learning theory concepts for employee training and studies of human behaviour for employee motivation. Mary Parker Follett was one of the first to recognise that organisations could be viewed from the point of view of both individual *and* group behaviour. She thought that organisations should be based on a group ethic rather than on individualism.



Ken Welsh/ZUMA Press/Newscom

1924–mid-1930s

The **Hawthorne studies**, a series of studies that provided new insights into individual and group behaviour, were without question the most important contribution to the behavioural approach to management.[4] Conducted at the Hawthorne (Cicero, Illinois) Works of the Western Electric Company, the studies were initially designed as a scientific management experiment. Company engineers wanted to see the effect of various lighting levels on worker productivity. Using control and experimental groups of workers, they expected to find that individual output in the experimental group would be directly related to the intensity of the light. However, much to their surprise, they found that productivity in both groups varied with the level of lighting. Not able to explain it, the engineers called in Harvard professor Elton Mayo. Thus began a relationship that lasted until 1932 and encompassed numerous experiments on the behaviour of people at work. What were some of their conclusions? Group pressures can significantly affect individual productivity, and people behave differently when they're being observed. Scholars generally agree that the Hawthorne studies had a dramatic impact on management beliefs about the role of people in organisations and led to a new emphasis on the human behaviour factor in managing organisations.

Archive PL/Alamy Stock Photo

1930s–1950s

The human relations movement is important to management history because its supporters never wavered from their commitment to making management practices more humane. Proponents of this

movement uniformly believed in the importance of employee satisfaction – a satisfied worker was believed to be a productive worker.[5] So, they offered suggestions such as employee participation, praise and being nice to people to increase employee satisfaction. For example, Abraham Maslow, a humanistic psychologist, developed a well-known theory of employee motivation based upon a hierarchy of five needs. He proposed that once a need was substantially satisfied, it no longer served to motivate behaviour. Douglas McGregor developed Theory X and Theory Y assumptions, which related to a manager's beliefs about an employee's motivation to work. Even though both Maslow's and McGregor's theories were never fully supported by research, they're important because they represent the foundation from which contemporary motivation theories were developed. Both are described more fully in the chapter on motivating and rewarding employees.

1960s–present

An organisation's people continue to be an important focus of management research. The field of study that researches the actions (behaviours) of people at work is called **organisational behaviour (OB)**. OB researchers do empirical research on human behaviour in organisations. Much of what managers do today when managing people – motivating, leading, building trust, working with a team, managing conflict and so on – has come out of OB research. These topics are explored in depth in the chapters on individual behaviour, motivation, leadership, communication, and controlling work and organisational processes.

Imtmphoto/Shutterstock

Classical approaches (1911–1947)

Beginning around the turn of the 20th century, the discipline of management began to evolve as a unified body of knowledge. Rules and principles were developed that could be taught and used in a variety of settings. These early management proponents were called classical theorists.

Classical approaches

1911

That's the year Frederick W. Taylor's *Principles of Scientific Management* was published. His groundbreaking book described a theory of **scientific management** – the use of scientific methods to determine the 'one best way' for a job to be done. His theories were widely accepted and used by managers around the world and Taylor became known as the 'father' of scientific management.[6] (Taylor's work is profiled in the Classic Concepts in Today's

Organisations box in the introductory chapter on managers and management.) Other major contributors to scientific management were Frank and Lillian Gilbreth (early proponents of time-and-motion studies and parents of the large family described in the original book *Cheaper by the Dozen*) and Henry Gantt (whose work on scheduling charts we discuss in the chapter on planning).

Bettmann/Getty Images

1916–1947

Unlike Taylor, who focused on an individual production worker's job, Henri Fayol (left) and Max Weber looked at organisational practices by focusing on what managers do and what constituted good management. This approach is known as **general administrative theory**. Fayol was introduced in the text as the person who first identified five management functions. He also identified 14 **principles of management** – fundamental rules of management that could be applied to all organisations.[7] (See below for a list of these 14 principles.) Weber is known for his description and analysis of bureaucracy, which he believed was an ideal, rational form of organisation structure, especially for large organisations. We elaborate on these two important management pioneers in the chapter on organisational structure and design.

Hulton Archive/Getty Images

Fayol's 14 principles of management

1. **Division of Work.** This principle is the same as Adam Smith's 'division of labour'. Specialisation increases output by making employees more efficient.
2. **Authority.** Managers must be able to give orders. Authority gives them this right. Along with authority,

however, goes responsibility. Whenever authority is exercised, responsibility arises.

3. **Discipline.** Employees must obey and respect the rules that govern the organisation. Good discipline is the result of effective leadership, a clear understanding between management and workers regarding the organisation's rules, and the judicious use of penalties for infractions of the rules.
4. **Unity of Command.** Every employee should receive orders from only one superior.
5. **Unity of Direction.** Each group of organisational activities that have the same objective should be directed by one manager using one plan.
6. **Subordination of Individual Interests to the General Interest.** The interests of any one employee or group of employees should not take precedence over the interests of the organisation as a whole.
7. **Remuneration.** Workers must be paid a fair wage for their services.
8. **Centralisation.** Centralisation refers to the degree to which subordinates are involved in decision making. Whether decision making is centralised (to management) or decentralised (to subordinates) is a question of proper proportion. The task is to find the optimum degree of centralisation for each situation.
9. **Scalar Chain.** The line of authority from top management to the lowest ranks represents the scalar chain. Communications should follow this chain.

However, if following the chain creates delays, cross-communications can be allowed if agreed to by all parties and if superiors are kept informed. Also called chain of command.

10. **Order.** People and materials should be in the right place at the right time.
11. **Equity.** Managers should be kind and fair to their subordinates.
12. **Stability of Tenure of Personnel.** High employee turnover is inefficient. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.** Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de Corps.** Promoting team spirit will build harmony and unity within the organisation.

Quantitative approach (1940s–1950s)

The quantitative approach, which focuses on the application of statistics, optimisation models, information models, computer simulations and other quantitative techniques to management activities, provided tools for managers to make their jobs easier.

Quantitative approach

1940s

The **quantitative approach** to management – which is the use of quantitative techniques to improve decision making – evolved from mathematical and statistical solutions developed for military problems during World War II. After the war was over, many of these techniques used for military problems were applied to businesses.[8] For example, one group of military officers, dubbed the 'Whiz Kids',

joined Ford Motor Company in the mid-1940s and immediately began using statistical methods to improve decision making at Ford.

Bert Hardy/Getty Images

1950s

After World War II, Japanese organisations enthusiastically embraced the concepts espoused by a small group of quality experts, the most famous being W. Edwards Deming (left) and Joseph M. Duran. As these Japanese manufacturers began beating US

competitors in quality comparisons, Western managers soon took a more serious look at Deming's and Juran's ideas.[9] Their ideas became the basis for **total quality management (TQM)**, which we explain in the chapter on how organisations operate.

AP Photo/Richard Drew

Contemporary approaches (1960s–present)

Most of the early approaches to management focused on managers' concerns inside the organisation. Starting in the 1960s, management researchers began to look at what was happening in the external environment outside the organisation.

Contemporary approaches

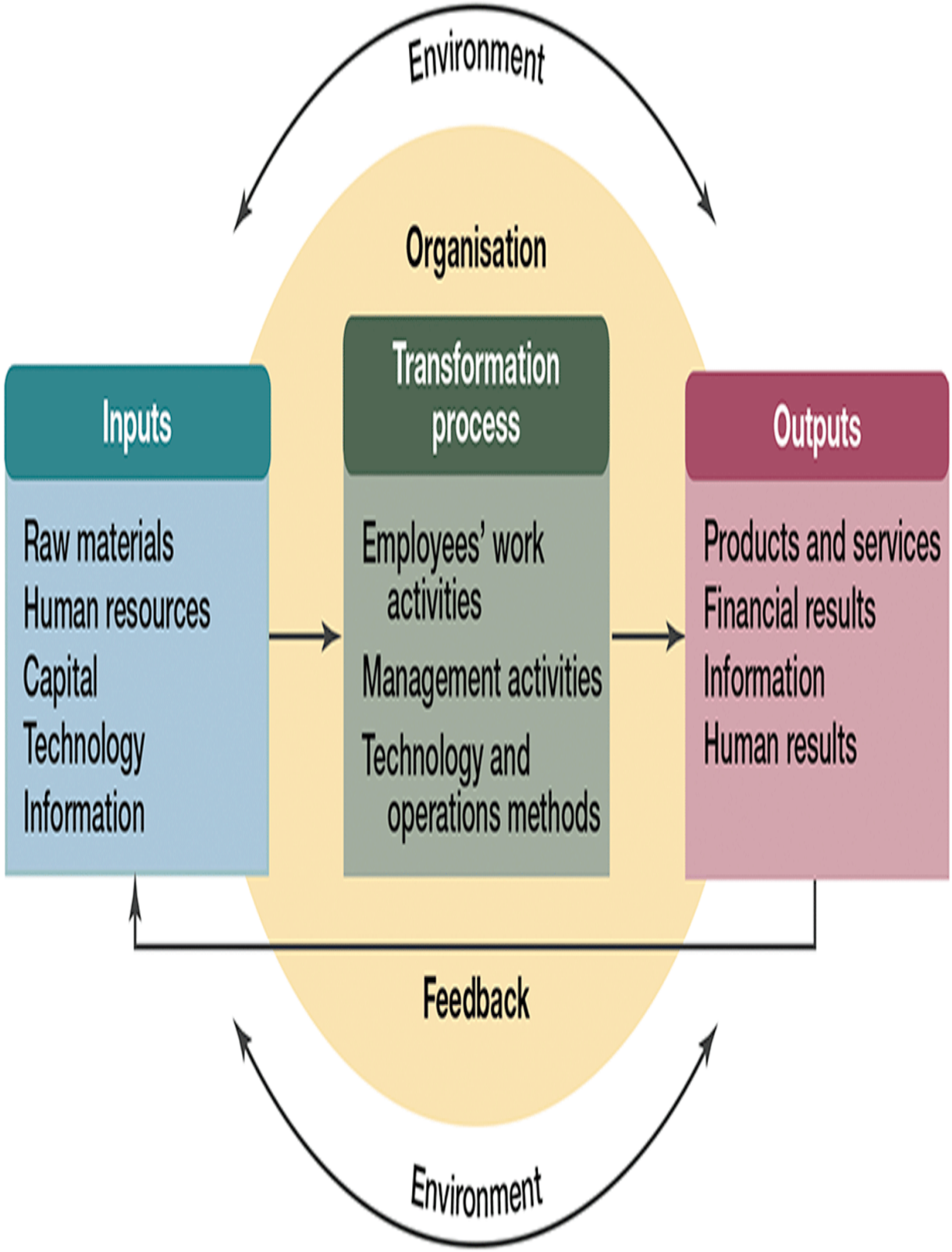
1960s

Early management theorists proposed management principles that they generally assumed to be universally applicable. Later research found exceptions to many of these principles. The **contingency approach (or situational approach)** says that organisations, employees and situations are different and require different ways of managing. A good way to describe contingency is 'if . . . then'. *If* this is the way my situation is, *then* this is the best way for me to manage in

this situation. Popular contingency variables have been found to include organisation size, the routineness of task technology, environmental uncertainty and individual differences.

It was also in the 1960s that management researchers began to look more carefully at **systems theory** and how it related to organisations.[10] A system is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. As we explain in the text, organisations function as open systems, which means they are influenced by and interact with their environment (see **Figure A.1**). A manager has to manage all parts of the system in order to achieve established goals.

Figure A.1 Organisation as an open system



1980s–present

Although the dawn of the information age is said to have begun with Samuel Morse's telegraph in 1837, the most dramatic changes in information technology have occurred in the latter part of the 20th century and early 21st century and have directly affected the manager's job.[11] Just like the impact of the Industrial Revolution in the 1700s on the emergence of management, the information age has brought dramatic changes that continue to influence the way organisations operate and are managed. Developments such as the widespread adoption of teleworking and webconferencing, the development of the 'gig' and 'sharing' economies, the use of social media to manage relationships with employees, customers and other stakeholders, and planning opportunities enabled by big data are just some that we discuss in this text.

Choosing between management approaches

Learning outcome A.3 Explain how managers can determine which approaches to management they should use.

With so many ideas about management to choose from, how do we know which are the best ones to use? As we explain and illustrate throughout this book, one approach is to use **evidence-based management**, which is the making of decisions based on hard facts about which ideas really work.[12] Management scholars conduct rigorous empirical research to determine how well our theories of management fit, apply to and enhance everyday organisational practice. So, by understanding how these ideas are tested and developed, you will be able to decide which approaches are most likely to be successful. By understanding how management research has been done, you'll also understand how evidence is generated about what works and what doesn't. This means, as a manager, you'll know what sort of evidence you need to look for in order to help you make decisions. You'll also be able to practise evidence-based management using the *best* available evidence.

However, as contingency theory shows us, which management ideas will work best in a given situation will depend partly on the situation. What works well for a small service organisation might not work so

well for a large multinational manufacturing operation. By developing a clear and detailed understanding of the circumstances we face, we can better determine which approaches are most suitable, appropriate and likely to be effective. This will tell us the aspects of the situation that will determine which approaches we could consider. For example, is this a ‘people’ problem? A structural problem? A cultural problem? Maybe it’s all three! But it will also help us to determine, as we noted above, whether the approaches we are considering have been tested in a situation like ours, and what the evidence suggests about whether they will work if we try to use them.

contingency approach (or situational approach)

An approach to management that says that individual organisations, employees and situations are different and require different ways of managing

division of labour (or job specialisation)

The breakdown of jobs into narrow repetitive tasks

evidence-based management

Making decisions based on evidence

general administrative theory

Descriptions of what managers do and what constitutes good management practice

Hawthorne studies

Research done in the late 1920s and early 1930s devised by Western Electric industrial engineers to examine the effect of different work environment changes on worker productivity, which led to a new emphasis on the human factor in the functioning of organisations and the attainment of their goals

Industrial Revolution

The advent of machine power, mass production and efficient transportation begun in the late 18th century in Great Britain

organisational behaviour (OB)

The field of study that researches the actions (behaviours) of people at work

principles of management

Fayol's fundamental or universal principles of management practice

quantitative approach

The use of quantitative techniques to improve decision making

scientific management

The use of the scientific method to define the one best way for a job to be done

systems theory

A view of organisations as sets of interrelated parts that function together to achieve a common purpose

total quality management (TQM)

A managerial philosophy devoted to continual improvement and responding to customer needs and expectations

Endnotes

1 C. S. George, Jr, *The History of Management Thought*, 2nd edn (Upper Saddle River, NJ: Prentice Hall, 1972), p. 4.

2 C. S. George, Jr, *The History of Management Thought*, 2nd edn (Upper Saddle River, NJ: Prentice Hall, 1972), pp. 35–41.

3 R. A. Owen, *A New View of Society* (New York: E. Bliss and White, 1825); H. Munsterberg, *Psychology and Industrial Efficiency* (Boston: Houghton Mifflin, 1913); and M. P. Follett, *The New State: Group Organization the Solution of Popular Government* (London: Longmans, Green, 1918).

4 E. Mayo, *The Human Problems of an Industrial Civilization* (New York: Macmillan, 1933); and F. J. Roethlisberger and W. J. Dickson, *Management and the Worker* (Cambridge, MA: Harvard University Press, 1939). Also see G. W. Yunker, 'An Explanation of Positive and Negative Hawthorne Effects: Evidence from the Relay Assembly Test Room and Bank Wiring Observation Room Studies', paper presented at the Academy of Management Annual Meeting, August 1993, Atlanta, GA; S. R. Jones, 'Was There a Hawthorne Effect?', *American Sociological Review*, November 1992, pp. 451–68; and S. R. G. Jones, 'Worker Interdependence and Output: The Hawthorne Studies Reevaluated', *American Sociological Review*, April 1990, pp. 176–90; J. A. Sonnenfeld, 'Shedding Light on the Hawthorne Studies', *Journal of Occupational Behavior*, April 1985, pp. 111–30; B. Rice, 'The Hawthorne Defect: Persistence of a Flawed Theory', *Psychology Today*, February 1982, pp. 70–4; R. H.

Franke and J. Kaul, 'The Hawthorne Experiments: First Statistical Interpretations', *American Sociological Review*, October 1978, pp. 623–43; and A. Carey, 'The Hawthorne Studies: A Radical Criticism', *American Sociological Review*, June 1967, pp. 403–16.

5 A. Maslow, 'A Theory of Human Motivation', *Psychological Review*, July 1943, pp. 370–96; see also A. Maslow, *Motivation and Personality* (New York: Harper & Row, 1954); and D. McGregor, *The Human Side of Enterprise* (New York: McGraw-Hill, 1960).

6 F. W. Taylor, *Principles of Scientific Management* (New York: Harper, 1911), p. 44. For other information on Taylor, see S. Wagner-Tsukamoto, 'An Institutional Economic Reconstruction of Scientific Management: On the Lost Theoretical Logic of Taylorism', *Academy of Management Review*, January 2007, pp. 105–17; R. Kanigel, *The One Best Way: Frederick Winslow Taylor and the Enigma of Efficiency* (New York: Viking, 1997); and M. Banta, *Taylored Lives: Narrative Productions in the Age of Taylor, Veblen, and Ford* (Chicago: University of Chicago Press, 1993).

7 H. Fayol, *Industrial and General Administration* (Paris: Dunod, 1916); M. Weber, *The Theory of Social and Economic Organizations*, ed. T. Parsons, trans. A. M. Henderson and T. Parsons (New York: Free Press, 1947); and M. Lounsbury and E. J. Carberry, 'From King to Court Jester? Weber's Fall from Grace in Organizational Theory', *Organization Studies*, vol. 26, no. 4 (2005), pp. 501–25.

8 P. Rosenzweig, 'Robert S. McNamara and the Evolution of Management', *Harvard Business Review*, December 2010, pp. 86–93; and C. C. Holt, 'Learning How to Plan Production, Inventories,

and Work Force', *Operations Research*, January–February 2002, pp. 96–9.

9 T. A. Stewart, 'A Conversation with Joseph Juran', *Fortune*, 11 January 1999, pp. 168–70; J. R. Hackman and R. Wageman, 'Total Quality Management: Empirical, Conceptual, and Practical Issues', *Administrative Science Quarterly*, June 1995, pp. 309–42; B. Krone, 'Total Quality Management: An American Odyssey', *The Bureaucrat*, Fall 1990, pp. 35–8; and A. Gabor, *The Man Who Discovered Quality* (New York: Random House, 1990).

10 C. I. Barnard, *The Functions of the Executive* (Cambridge, MA: Harvard University Press, 1938); and K. B. DeGreene, *Sociotechnical Systems: Factors in Analysis, Design, and Management* (Upper Saddle River, NJ: Prentice Hall, 1973), p. 13.

11 'Information Age: People, Information & Technology – An Exhibition at the National Museum of American History', *Smithsonian Institution*, **http://photo2.si.edu/infoage/infoage.html**, 11 June 2009; and P. F. Drucker, *Management, Revised Edition* (New York: HarperCollins Publishers, 2008).

12 J. Pfeffer and R. I. Sutton, 'Evidence-Based Management', *Harvard Business Review*, January 2006, pp. 63–74.

Glossary

A

absenteeism
The failure to show up for work.

active listening
Listening for full meaning without making premature judgments or interpretations.

adjourning stage
The final stage of group development for temporary groups, during which groups prepare to disband.

affective component
The emotional or feeling part of an attitude.

agency
A person's ability to act in a given situation.

assumed similarity
An observer's perception of others is influenced more by the observer's own characteristics than by those of the person

observed.

attitudes

Evaluative statements, either favourable or unfavourable, concerning objects, people or events.

attribution theory

A theory used to explain how we judge people differently, based on what meaning we attribute to a given behaviour.

authority

The rights inherent in a managerial position to give orders and expect them to be obeyed.

autocratic style

A leader who centralises authority, dictates work methods, makes unilateral decisions and limits employee participation.

B

balanced scorecard

A performance measurement tool that looks at more than just the financial perspective.

basic corrective action

Corrective action that looks at how and why performance deviated before correcting the source of deviation.

behaviour

The actions of people.

behavioural component

The part of an attitude that refers to an intention to behave in a certain way towards someone or something.

behavioural theories of leadership

Theories that isolate behaviours that differentiate effective leaders from ineffective leaders.

benchmarking

The search for the best practices among competitors or non-competitors that lead to their superior performance.

big data

The vast amount of quantifiable information that can be analysed by highly sophisticated data processing.

Big Five model

A personality trait model that examines five traits: extraversion, agreeableness, conscientiousness, emotional stability and openness to experience.

body language

Non-verbal communication cues such as facial expressions, gestures and other body movements.

boundaryless organisation

An organisation whose design isn't defined by, or limited to, boundaries imposed by a predefined structure.

bounded rationality

Making decisions that are rational within the limits of a manager's ability to process information.

brainstorming

An idea-generating process that encourages alternatives while withholding criticism.

business plan

A written document that summarises a business opportunity, and defines and articulates how the identified opportunity is to be seized and exploited.

C

'calm waters' metaphor

A description of organisational change that likens such change to a large ship making a predictable trip across a calm sea and experiencing an occasional storm.

capabilities

An organisation's skills and abilities in doing the work activities needed in its business.

capitalist economy

An economic system in which individuals or corporations own the means of production and market forces operate.

career

The sequence of work positions held by a person during their lifetime.

career planning

The process of matching career goals and individual capabilities with opportunities for achieving those goals.

centralisation

The degree to which decision making takes place at upper levels of the organisation.

certainty

A situation in which a decision maker can make accurate decisions because all outcomes are known.

chain of command

The line of authority extending from upper organisational levels to lower levels, which clarifies who reports to whom.

change agents

People who act as change catalysts and assume the responsibility for managing the change process.

channel

The medium by which a message travels.

charismatic leader

Enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

cloud computing

Storing and access data on the Internet rather than on a computer's hard drive or a company's network.

code of ethics

A formal document that states an organisation's primary values and the ethical rules it expects managers and non-managerial employees to follow.

cognitive component

The part of an attitude made up of the beliefs, opinions, knowledge and information held by a person.

cognitive dissonance

Any incompatibility or inconsistency between attitudes, or between behaviour and attitudes.

commitment concept

The idea that plans should extend far enough to meet those commitments made when the plans were developed.

communication

A transfer of understanding and meaning from one person to another.

communication process

The process by which understanding and meaning are transferred from one person to another.

communities of practice

Groups of people who share a concern, a set of problems or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis.

company

A business entity that is legally distinct from its owners.

compensation administration

The process of determining a cost-effective pay structure that will attract and retain employees, provide an incentive for them to work hard and ensure that pay levels will be perceived as fair.

competitive intelligence

A type of environmental scanning that gives managers accurate information about competitors.

competitive strategy

An organisational strategy for how an organisation will compete in its business(es).

competitors

Individuals and organisations with whom an organisation competes for resources.

compressed work week

A work week where employees work longer hours per day but fewer days per week.

conceptual skills

A manager's ability to analyse and diagnose complex situations.

concurrent control

Control that takes place while a work activity is in progress.

conflict

Perceived differences resulting in interference or opposition.

consideration

The extent to which a leader has job relationships characterised by mutual trust, respect for employees' ideas and regard for their feelings.

contingency approach (or situational approach)

An approach to management that says organisations, employees and situations are different and require different ways of managing.

contingent workers

Part-time, temporary and contract workers who are available for hire on an as-needed basis.

continuous improvement

An organisation's commitment to continually improving the quality of a product or service.

control

Management function that involves monitoring activities to ensure that they're being accomplished as planned and correcting any significant deviations.

control process

A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations.

controlling

The process of monitoring performance, comparing it with goals and correcting any significant deviations.

core competencies

The main value-creating capabilities of an organisation.

corporate strategy

An organisational strategy that specifies what businesses a company is in, or wants to be in, and what it wants to do with those businesses.

creativity

The ability to produce novel and useful ideas.

credibility

The degree to which followers perceive someone as honest, competent and able to inspire.

cross-functional team

A work team made up of individuals from various departments that crosses traditional departmental lines.

cultural characteristics

The customs, values, tastes, attitudes and behaviours in a particular society.

customer departmentalisation

Grouping activities by customer.

customers

People and organisations that acquire goods or services from the organisation.

cyberloafing

Using employer-provided internet access and computer technology (e.g. laptops and email systems) to engage in personal activities.

D

data visualisation tools

Tools that allow the user to visually display data.

decentralisation

The degree to which lower-level managers provide input or actually make decisions.

decision criteria

Factors that are relevant in a decision.

decision implementation

Putting a decision into action.

decision-making process

A set of eight steps that includes identifying a problem, selecting a solution and evaluating the effectiveness of the solution.

decisional roles

Entail making decisions or choices.

decoding

Translating a received message.

delegation

Assigning authority to another person to carry out specific activities.

democratic style

A leader who involves employees in decision making, delegates authority, encourages participation in deciding work methods and uses feedback to coach employees.

demographic conditions

The physical characteristics of the population, such as gender, average age, level of education, geographic dispersal, income and household composition.

departmentalisation

How jobs are grouped together.

design thinking

Approaching management problems in the same way that designers approach design problems.

digital tools

Technology, systems or software that allow the user to collect, visualise or analyse data.

directional plans

Plans that are flexible and set general guidelines.

discipline

Actions taken by a manager to enforce an organisation's standards and regulations.

disruptive innovation

Innovation in products, services or processes that radically changes an industry's rules of the game.

distributive bargaining

Negotiation under zero-sum conditions, in which any gain by one party involves a loss to the other party.

distributive justice

Perceived fairness of the amount and allocation of rewards among individuals.

diversity management

Creating a work environment focused on achieving inclusion for all organisational members, in which people are treated with dignity, equality and fairness, and have fair and equitable access to employment and professional development opportunities.

division of labour (or job specialisation)

The breakdown of jobs into narrow, repetitive tasks.

divisional structure

An organisational structure made up of separate business units or divisions.

downsizing

The planned elimination of jobs in an organisation.

dynamism

The rate and predictability of change in the elements of an organisation's environment.

dysfunctional conflicts

Conflict that's destructive and prevents an organisation from achieving its goals.

E

economic dimension of the general environment

The general economic health of the country in which the organisation operates.

effective communication

A communication process in which the sender gains the understanding that the sender intended.

effectiveness

Doing the right things, or completing activities so that organisational goals are attained.

efficiency

Doing things right, or getting the most output from the least amount of inputs.

electronic meeting

A type of nominal group technique in which participants are linked by computer and use software platforms to facilitate, record and review discussion.

emotional intelligence (EI)

The ability to notice and to manage emotional cues and information.

empathy

The ability to understand other people's needs.

employee assistance programs (EAPs)

Programs offered by organisations to help employees overcome personal and health-related problems.

employee benefits

Non-financial rewards designed to enrich employees' lives.

employee counselling

A process designed to help employees overcome performance-related problems.

employee engagement

When employees feel connected to, satisfied with and enthusiastic about their jobs.

employee oriented

A leader who emphasises the people aspects.

employee productivity

A performance measure of both work efficiency and effectiveness.

employee recognition programs

Programs that consist of personal attention and expressions of interest, approval and appreciation for a job well done.

employee theft

Any unauthorised taking of company property by employees for their personal use.

employee training

A learning experience that seeks a relatively permanent change in employees by improving their ability to perform on the job.

employees

Individuals who labour on behalf of the organisation in exchange for payment.

employment planning

The process by which managers ensure they have the right numbers and kinds of people in the right places at the right time.

empowerment

When employees have decision-making discretion.

encoding

Converting a message into symbolic form.

entrepreneur

Individual who is willing to take risks to pursue opportunities that others either fail to recognise or view as problems or threats.

entrepreneurial venture

Organisation that pursues opportunities, is characterised by innovative practices, and has growth and profitability as its main goals.

entrepreneurship

Engaging in dynamic, risk-taking, creative, growth-oriented behaviour.

environmental complexity

The number of external factors affecting the organisation and the extent of their influence.

environmental scanning

An analysis of the external environment that involves screening large amounts of information to detect emerging trends.

environmental uncertainty

How well managers can understand or predict the changes and trends in the environments affecting their organisations.

equity theory

The theory that an employee compares their job's inputs–outcomes ratio with that of relevant others and then corrects any inequity.

escalation of commitment

An increased commitment to a previous decision despite evidence that it may have been a poor one.

ethical communication

Presented material that contains all relevant information, is true in every sense, and isn't deceptive in any way.

ethics

A set of rules or principles that defines right and wrong conduct.

ethnicity

Social groupings of people based on cultural characteristics and traditions.

evidence-based management

Making decisions based on evidence.

expectancy theory

The theory that an individual tends to act in a certain way, based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual.

external organisational environment

The forces and conditions outside the organisation's boundaries that can potentially affect it.

F

feedback

Checking to see how successfully a message has been transferred.

feedback control

Control that takes place after a work activity is done.

feedforward control

Control that takes place before a work activity is done.

Fiedler contingency model

Leadership theory proposing that effective group performance depends on the proper match between a leader's style and the

degree to which the situation allowed the leader to control and influence.

filtering

Deliberately manipulating information to make it appear more favourable to the receiver.

flexitime (flexible work hours)

A work scheduling system in which employees are required to work a specific number of hours per week but can vary when they work those hours within certain limits.

formal planning department

A group of planning specialists whose sole responsibility is to help write the various organisational plans.

formalisation

How standardised an organisation's jobs are and the extent to which employee behaviour is guided by rules and procedures.

forming stage

The first stage of group development in which people join the group and then define the group's purpose, structure and leadership.

front-line managers

Supervisors responsible for directing the day-to-day activities of non-managerial employees.

functional conflicts

Conflict that's constructive and supports an organisation's goals.

functional departmentalisation

Grouping activities by functions performed.

functional strategy

Strategy used in an organisation's various functional departments to support the competitive strategy.

functional structure

An organisational design that groups similar or related occupational specialties together.

fundamental attribution error

The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behaviour of others.

G

Gantt chart

A bar graph, with time on the horizontal axis and the activities to be scheduled on the vertical axis, which illustrates when tasks are supposed to be done and the actual progress on each.

general administrative theory

Descriptions of what managers do and what constitutes good management practice.

general environment

The sociocultural, technological, economic, political/legal and global conditions in the society in which the organisation operates.

geographic departmentalisation

Grouping activities on the basis of geography or territory.

gig economy

The use of digital platforms to connect people who want work done with people who want to do it.

global dimension of the general environment

Factors that operate across national boundaries.

Global Leadership and Organizational Behavior Effectiveness (GLOBE) research program

A program that studies cross-cultural leadership behaviours.

goal-setting theory

The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals.

goals (objectives)

Desired outcomes or targets.

grapevine

An unofficial channel of communication.

group

Two or more interacting and interdependent individuals who come together to achieve specific goals.

group cohesiveness

The degree to which members are motivated to remain in a group and share its goals.

groupthink

When a group exerts extensive pressure on an individual to withhold their different views in order to appear to be in agreement.

H

halo effect

When we form a general impression of a person on the basis of a single characteristic.

harvesting

Exiting a venture when an entrepreneur hopes to capitalise financially on the investment in the venture.

Hawthorne studies

Research done in the late 1920s and early 1930s devised by Western Electric industrial engineers to examine the effect of different work environment changes on worker productivity, which led to a new emphasis on the human factor in the functioning of organisations and the attainment of their goals.

heuristics

Judgmental shortcuts or ‘rules of thumb’ used to simplify decision making.

hierarchy of needs theory

Maslow’s theory that there is a hierarchy of five human needs: physiological, safety, social, esteem and self-actualisation.

human relations view of conflict

The view that conflict is natural and inevitable and has the potential to be a positive force.

human resource inventory

A report listing important information about employees, such as name, education, training, skills, languages spoken and so on.

human resource management (HRM)

The management function concerned with recruiting, selecting, training, motivating and keeping competent employees.

hygiene factors

Factors that eliminate job dissatisfaction but don’t motivate.

I

idea champions

Individuals who actively and enthusiastically support new ideas, build support for and overcome resistance to innovations, and ensure that they are implemented.

immediate corrective action

Corrective action that addresses problems at once to get performance back on track.

inclusion

The achievement of a work environment in which all individuals are treated fairly and respectfully, have equal opportunities and resources, and can contribute fully to the organisation’s success.

Industrial Revolution

The advent of machine power, mass production and efficient transportation begun in the late 18th century in Great Britain.

information overload

What results when information exceeds processing capacity.

informational roles

Involve collecting, receiving and disseminating information.

initiating structure

The extent to which a leader defines and structures their own role and the roles of employees to attain goals.

innovation

The process of taking a creative idea and turning it into a useful product, service or method of operation.

integrative bargaining

Negotiation in which there is at least one settlement that involves no loss to either party.

interactionist view of conflict

The view that some conflict is necessary for an organisation to perform effectively.

interest groups

Groups organised to serve the interests of their members by influencing business activities in specific areas, such as environmental impact and ethical conduct.

intergroup development

Activities that attempt to make several work groups more cohesive.

Internet of Things

Internet-based system on which data from any entity with a unique identified can be collected or accessed without human-to-human or human-to-computer interaction.

interpersonal roles

Involve people (subordinates and people outside the organisation) and other duties that are ceremonial and symbolic in nature.

interpersonal skills

A manager's ability to work with, understand, mentor and motivate others, both individually and in groups.

intrapreneurship

Developing entrepreneurial cultures within existing organisations.

intuitive decision making

Making decisions on the basis of experience, feelings and accumulated judgment.

J

jargon

Technical language, specific to a discipline or industry.

job analysis

An assessment that defines jobs and the behaviours necessary to perform them.

job characteristics model (JCM)

A framework for analysing and designing jobs that identifies five core job dimensions, their interrelationships and their impact on

outcomes.

job description

A written statement that describes a job.

job design

The way tasks are combined to form complete jobs.

job enrichment

The vertical expansion of a job by adding planning and evaluation responsibilities.

job involvement

The degree to which an employee identifies with their job, actively participates in it, and considers their job performance important for self-worth.

job satisfaction

An employee's general attitude towards their job.

job sharing

When two or more people split a full-time job.

job specification

A written statement of the minimum qualifications that a person must possess to perform a given job successfully.

K

karoshi

A Japanese term for sudden death caused by overworking.

knowledge management

Cultivating a learning culture in which organisational members systematically gather knowledge and share it with others.

L

labour market

The pool of people employable by the organisation.

laissez-faire style

A leader who generally gives employees complete freedom to make decisions and to complete their work however they see fit.

large business

An independent business that employs at least 200 people.

lay-off survivor sickness

A set of attitudes, perceptions and behaviours of employees who survive lay-offs.

leader

Someone who can influence others and who has managerial authority.

leader–member exchange (LMX) theory

A leadership theory that says leaders create in-groups and out-groups, and that those in the in-group will have higher performance ratings, less turnover and greater job satisfaction.

leader-participation model

A leadership contingency theory that's based on a sequential set of rules for determining how much participation a leader uses in decision making according to different types of situations.

leadership

The process of leading a group and influencing that group to achieve its goals.

leading

Includes motivating employees, directing the activities of others, selecting the most effective communication channel and resolving conflicts.

learning

A relatively permanent change in behaviour that occurs as a result of experience.

learning organisation

An organisation that has developed the capacity to continuously learn, adapt and change.

least-preferred co-worker (LPC) questionnaire

A questionnaire that measures whether a leader is task or relationship oriented.

line authority

Authority that entitles a manager to direct the work of an employee.

load chart

A modified version of the Gantt chart that lists whole departments or specific resources on the vertical axis to demonstrate capacity utilisation.

locus of control

The degree to which people believe they control their own fate.

long-term plans

Plans with a time frame beyond three years.

M

Machiavellianism ('Mach')

A measure of the degree to which people are pragmatic, maintain emotional distance and believe that ends justify means.

management

The process of getting things done, efficiently and effectively, with and through other people.

management by objectives (MBO)

A process of setting mutually agreed-upon goals, and then using those goals to evaluate employee performance.

management by walking around (MBWA)

When a manager is out in the work area interacting with employees.

management information system (MIS)

A system used to provide management with needed information on a regular basis.

managerial roles

Specific categories of managerial behaviour; often grouped under three primary headings: interpersonal relationships, transfer of information and decision making.

managers

Individuals in an organisation who direct the activities of others.

margin

Profit generated by the value chain, calculated as the total revenue generated from the chain minus the collective cost of performing chain activities.

mass production

Large-batch manufacturing.

matrix structure

A structure in which specialists from different functional departments are assigned to work on projects led by a project manager.

means–ends chain

An integrated network of goals in which higher-level goals are linked to lower-level goals, which serve as the means for their accomplishment.

mechanistic organisation

A structure that's high in specialisation, formalisation and centralisation.

media richness

The capacity for different communication media to facilitate shared meaning.

medium-sized business

An independent business that employs between 20 and 199 people.

mental maps

Cognitive maps or images about how the world operates.

mentoring

A process in which new or junior employees are formally paired with a more experienced colleague who provides advice, support and encouragement.

message

The actual physical product that the sender creates to convey their purpose.

middle managers

Individuals who are typically responsible for translating goals set by top managers into specific details and tactical plans that lower-level managers will ensure are carried out.

mission

A statement of an organisation’s purpose.

moral identity

The degree to which being a moral person is important to an individual’s identity.

motivation

The process by which a person’s efforts are energised, directed and sustained towards attaining a goal.

motivation to manage

An internal force that drives people to become a manager, enjoy being one, and perform well in managerial positions.

motivators

Intrinsic factors that have to do with the job itself and serve to motivate individuals.

Myers-Briggs Type Indicator (MBTI)

A personality assessment that uses four dimensions of personality to identify different personality types.

N

narcissism

The degree to which people focus on themselves and their own interests ahead of those of other people.

necessity-based entrepreneur

Entrepreneur who creates a new venture because they have few or no other employment options.

need for achievement (nAch)

The drive to succeed and excel in relation to a set of standards.

need for affiliation (nAff)

The desire for friendly and close interpersonal relationships.

need for power (nPow)

The need to make others behave in a way that they wouldn’t have behaved otherwise.

negotiation

A process in which two or more parties who have different preferences must make a joint decision and come to an agreement.

network organisation

An organisation that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes.

noise

Any factor that interferes with or disrupts the communication process.

nominal group technique

A decision-making technique in which group members are physically present but operate independently.

non-managerial employees

People who work directly on a job or task and have no responsibility for overseeing the work of others.

non-programmed decision

A unique and non-recurring decision that requires a custom-made solution.

norming stage

The third stage of group development, which is characterised by close relationships and cohesiveness.

norms

Standards or expectations that are accepted and shared by a group's members.

O

on-demand workforce

Labour pool of people who source work through digital platforms.

operant conditioning

A theory of learning that says behaviour is a function of its consequences.

operations management

The design, operation and control of the operating system used to transform inputs into outputs.

opportunities

Positive trends in the external environment.

opportunity-based entrepreneur

Entrepreneur who forms a new venture in order to pursue an opportunity.

organic organisation

A structure that's low in specialisation, formalisation and centralisation.

organisation

A systematic arrangement of people brought together to accomplish some specific purpose.

organisation development (OD)

Efforts that assist organisational members with a planned change by focusing on their attitudes and values.

organisational behaviour (OB)

The study of the actions of people at work.

organisational change

Any alteration of an organisation's structure, technology or people.

organisational chart

A pictorial illustration of an organisational structure.

organisational citizenship behaviour (OCB)

Discretionary behaviour that's not part of an employee's formal job requirements, but that promotes the effective functioning of the organisation.

organisational commitment

An employee's orientation towards the organisation in terms of their loyalty to, identification with and involvement in the organisation.

organisational culture

The shared values, principles, traditions and ways of doing things that influence the way organisational members act.

organisational design

When managers develop or change the organisation's structure.

organisational processes

The way work is done.

organising

The function of management that creates the organisation's structure. Includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom and where decisions are to be made.

orientation

Introducing a new employee to the job and the organisation.

P

partnership

A business operated by two or more people who agree to each contribute resources and split profits.

path–goal theory

A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide the direction or support needed to ensure that their goals are compatible with the organisation's or group's goals.

pay-for-performance programs

Variable compensation plans that pay employees on the basis of some performance measure.

perception

A process by which we give meaning to our environment by organising and interpreting sensory impressions.

performance management system

A system that establishes performance standards that are used to evaluate employee performance.

performance-simulation tests

Selection devices based on actual job behaviours.

performing stage

The fourth stage of group development, when the group is fully functional and works on the group task.

personality

A unique combination of emotional, thought and behavioural patterns that affects how a person reacts to situations and interacts with others.

PERT network

A flow-chart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity.

physical dimension of the general environment

The natural and constructed elements of an organisation's physical surroundings, including biological, ecological, constructed, climate and natural resources.

planning

Includes defining goals, establishing strategy and developing plans to coordinate activities.

plans

Documents that outline how goals are going to be met.

policy

A guideline for making decisions.

political/legal dimension of the general environment

The legal and governmental systems within which an organisation operates, including the general conditions and stability of the

political system, government regulation and government spending.

political skills

A manager's ability to build a power base and establish the right connections.

portfolio entrepreneur

Entrepreneur who operates multiple entrepreneurial ventures at the same time.

power

An individual's capacity to influence decisions.

primary activities

Value activities that directly create value for which customers pay by contributing to the production, sale, delivery and after-sale support of a product.

principles of management

Fayol's fundamental or universal principles of management practice.

proactive personality

A personality trait describing those individuals who are more prone to take actions to influence their environment.

problem

A discrepancy between an existing and a desired state of affairs.

problem-solving teams

A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems.

procedural justice

Perceived fairness of the process used to determine the distribution of rewards.

procedure

A series of interrelated, sequential steps used to respond to a structured problem.

process

A set of ongoing and interrelated activities required to achieve particular outcomes.

process conflict

Conflict that refers to how the work gets done.

process consultation

Using outside consultants to assess organisational processes such as workflow, informal intra-unit relationships and formal communication channels.

process departmentalisation

Grouping activities on the basis of work or customer flow.

process production

Continuous flow of products being produced.

product departmentalisation

Grouping activities by major product areas.

production oriented

A leader who emphasises the technical or task aspects.

professionalism

How you conduct yourself in your workplace – your attitudes, actions and behaviours.

programmed decision

A repetitive decision that can be handled using a routine approach.

project structure

A structure in which employees continuously work on projects.

Q

quantitative approach

The use of quantitative techniques to improve decision making.

R

race

Social groupings of people based on physical and biological characteristics.

range of variation

The acceptable parameters of variance between actual performance and a standard.

rational decision making

Describes choices that are consistent and value-maximising within specified constraints.

readiness

The extent to which people have the ability and willingness to accomplish a specific task.

real goals

Those goals an organisation actually pursues as shown by what the organisation's members are doing.

realistic job preview (RJP)

A preview of a job that provides both positive and negative information about the job and the company.

recruitment

Locating, identifying and attracting capable applicants.

referent

The persons, systems or selves against which individuals compare themselves to assess equity.

regulators

People and organisations that create and enforce rules and regulations to protect consumers, workers and society as a whole.

relationship conflict

Conflict that focuses on interpersonal relationships.

reliability

The degree to which a selection device measures the same thing consistently.

resource availability

The abundance of critical resources in an organisation’s external environment.

resources

An organisation’s assets that it uses to develop, manufacture and deliver products to its customers.

responsibility

An obligation to perform assigned duties.

ringisei

A Japanese term for consensus-forming group decisions.

risk

A situation in which a decision maker is able to estimate the likelihood of certain outcomes.

risk taking

The degree of willingness to take chances.

role

Behaviour patterns expected of someone who occupies a given position in a social unit.

role ambiguity

When role expectations aren’t clearly understood.

role conflicts

Work expectations that are hard to satisfy.

role overload

Having more work to accomplish than time permits.

rule

An explicit statement that tells employees what can or cannot be done.

S

satisficing

Accepting solutions that are ‘good enough’.

scientific management

The use of scientific methods to define the ‘one best way’ for a job to be done.

selection process

Screening job applicants to ensure that the most appropriate candidates are hired.

selective perception

Selectively perceiving or hearing a communication based on your own needs, motivations, experiences or other personal characteristics.

self-efficacy

An individual’s belief that they are capable of performing a task.

self-esteem (SE)

An individual’s degree of like or dislike for themself.

self-managed work team

A type of work team that operates without a manager and is responsible for a complete work process or segment.

self-monitoring

A personality trait that measures the ability to adjust behaviour to external situational factors.

self-serving bias

The tendency for individuals to attribute their successes to internal factors while putting the blame for failures on external factors.

serial entrepreneur

Entrepreneur who operates multiple entrepreneurial ventures one after the other.

sexual harassment

Any unwanted or unwelcome sexual behaviour that a reasonable person could have anticipated would possibly make the harassed person feel offended, humiliated or intimidated.

shaping behaviour

The process of guiding learning in graduated steps, using reinforcement or lack of reinforcement.

sharing economy

An economic environment in which asset owners share with other individuals through a peer-to-peer service, for a set fee, their underutilised physical assets or their knowledge, expertise, skills or time.

short-term plans

Plans with a time frame of one year or less.

simple structure

An organisational design with low departmentalisation, wide spans of control, authority centralised in a single person and little formalisation.

single-use plan

A one-time plan specifically designed to meet the needs of a unique situation.

situational leadership theory (SLT)

A leadership contingency theory that focuses on followers' readiness.

skill-based pay

A pay system that rewards employees for the job skills they demonstrate.

small business

An independent business that employs between 5 and 19 people.

social entrepreneur

Individual who uses entrepreneurial principles to solve social problems or to create social change.

social learning theory

A theory of learning that says people can learn through observation and direct experience.

social loafing

The tendency for individuals to expend less effort when working collectively than when working individually.

social media

Forms of electronic communication through which users create online communities to share ideas, information, personal messages and other content.

social obligations

When a business engages in social actions because of its obligation to meet certain economic and legal responsibilities.

social responsibility

A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

socialist economy

An economic system in which a central government owns the means of production and plans all economic activity.

socially responsible

When a business has intentions, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

socially responsive

When a business engages in social actions in response to some popular social need.

sociocultural dimension of the general environment

The cultural characteristics and demographic conditions of the society in which the organisation operates.

sole proprietorship

A profit-oriented business usually operated by a single person. Because the business has unlimited liability, the owner's personal assets can be used to settle business debts.

span of control

The number of employees a manager can efficiently and effectively supervise.

specific environment

The organisations, groups and individuals with whom an organisation interacts as it conducts its business.

specific plans

Plans that are clearly defined and leave no room for interpretation.

staff authority

Positions with some authority that have been created to support, assist and advise those holding line authority.

stakeholders

Anyone who affects or is affected by the achievement of the organisation's objectives.

standing plans

Plans that are ongoing and provide guidance for activities performed repeatedly.

stated goals

Official statements of what an organisation says, and wants its stakeholders to believe, its goals are.

status

A prestige grading, position or rank within a group.

stereotyping

When we judge someone on the basis of our perception of a group to which that person belongs.

storming stage

The second stage of group development, which is characterised by intragroup conflict.

strategic management

What managers do to develop an organisation's strategies.

strategic management process

A six-step process that encompasses strategy planning, implementation and evaluation.

strategic partners

Organisations that work together for mutual benefit.

strategic plans

Plans that apply to the entire organisation and encompass its overall goals.

strategies

Plans for how the organisation will do what it's in business to do, how it will compete successfully, and how it will attract its customers in order to achieve its goals.

strengths

Any activities the organisation does well or any unique resources that it has.

stress

The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints or opportunities.

stressors

Factors that cause stress.

strong cultures

Organisational cultures in which the key values are deeply held and widely shared.

structured problem

A straightforward, familiar and easily defined problem.

suppliers

Companies and individuals who provide the inputs that organisations use to conduct their operations.

support activities

Value activities undertaken to support and enable the primary activities.

survey feedback

A method of assessing employees' attitudes towards and perceptions of a change.

sustainability

A company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental and social opportunities into its business strategies.

sustaining innovation

Innovation that offers small and incremental benefits over other existing alternatives.

SWOT analysis

The combined external and internal analyses.

systems theory of organisations

A view of organisations as sets of interrelated parts that function together to achieve a common purpose.

T

tactical plans

Plans that specify the details of how the overall goals are to be achieved.

task conflict

Conflict that relates to the content and goals of work.

team building

Using activities to help work groups set goals, develop positive interpersonal relationships, and clarify the roles and responsibilities of each team member.

team leaders

Individuals who are responsible for managing and facilitating the activities of a work team.

team structure

A structure in which the entire organisation is made up of work teams.

technical skills

Job-specific knowledge and techniques needed to perform work tasks.

technological dimension of the general environment

The knowledge, tools and methods used to convert resources into products and services.

telecommuting

A work arrangement in which employees log into workplace networks from home, rather than commute to their work site.

Theory X

The assumption that employees dislike work, are lazy, avoid responsibility and must be coerced to work.

Theory Y

The assumption that employees are creative, enjoy work, seek responsibility and can exercise self-direction.

threats

Negative trends in the external environment.

three-needs theory

McClelland's theory, which says that three acquired (not innate) needs – achievement, power and affiliation – are major motives at work.

360-degree appraisal

An appraisal device that seeks feedback from a variety of sources for the person being rated.

top managers

Individuals who are responsible for making decisions about the direction of the organisation, and for establishing policies that affect all organisational members.

total quality management (TQM)

A managerial philosophy devoted to continual improvement and responding to customer needs and expectations.

traditional goal setting

Goals set by top managers flow down through the organisation and become subgoals for each organisational area.

traditional view of conflict

The view that all conflict is bad and must be avoided.

trait theories of leadership

Theories that isolate characteristics (traits) that differentiate leaders from non-leaders.

transactional leader

Leader who leads primarily by using social exchanges (or transactions).

transformation process

The process that converts resources into finished goods and services.

transformational leader

Leader who stimulates and inspires (transforms) followers to achieve extraordinary outcomes.

trust

The belief in the integrity, character and ability of a leader.

turnover

Voluntary and involuntary permanent withdrawal from an organisation.

two-factor theory

Herzberg's motivation theory, which proposes that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction.

Type A personality

People who have a chronic sense of urgency and an excessive competitive drive.

Type B personality

People who are relaxed and easygoing and accept change easily.

U

uncertainty

A situation in which a decision maker has neither certainty nor reasonable probability estimates available.

unions

Employee associations that negotiate pay and conditions and take industrial action on behalf of their members.

unit production

The production of items in units or small batches.

unity of command

The management principle that no person should report to more than one boss.

unstructured problem

A problem that is new or unusual for which information is ambiguous or incomplete.

V

validity

The proven relationship between a selection device and some relevant criterion.

value

The performance characteristics, features and attributes of goods and services for which customers are willing to give up resources.

value activities

Activities that utilise human resources, information and technology to convert inputs into outputs and generate information.

value chain

The entire series of organisational work activities that add value at each step, from raw materials to finished product.

value chain management

The process of managing the sequence of activities and information along the entire value chain.

variable pay

A pay system in which an individual's compensation is contingent on performance.

verbal intonation

An emphasis given to words or phrases that conveys meaning.

virtual organisation

An organisation that consists of a small core of full-time employees and outside specialists hired temporarily as needed to work on projects.

virtual team

A type of work team that uses technology to link physically dispersed members in order to achieve a common goal.

visionary leadership

The ability to create and articulate a realistic, credible and attractive vision of the future that improves on the present situation.

W

weaknesses

Activities the organisation doesn't do well or resources it needs but doesn't possess.

wellness programs

Programs offered by organisations to help employees prevent health problems.

whistle-blower

A person who raises a concern about wrongdoing by an organisation or a group of people within it.

'white-water rapids' metaphor

A description of organisational change that likens such change to a small raft navigating a raging river.

work specialisation

Dividing work activities into separate job tasks; also called division of labour.

work teams

Groups whose members work intensely on specific common goals using their positive synergy, individual and mutual accountability, and complementary skills.

workforce diversity

Ways in which people in a workforce are similar to and different from one another in terms of gender, age, race, sexual orientation, ethnicity, cultural background, and physical abilities and disabilities.

workplace health and safety

Providing a safe and healthy work environment.

workplace misbehaviour

Any intentional employee behaviour that is potentially harmful to the organisation or individuals within the organisation.

Index

Note: Page numbers in **bold** indicate definitions of key terms.

A

ability **52**

absenteeism **267**, **267**

accept errors in hiring **213**

accommodation **397**

achievement-oriented leader **335**

actions, managing **9**, **12**

active listening **365**, **370**, **374**

Adams, J. Stacey **307**

adjourning stage **181**

affective component of an attitude **267**

Age Discrimination Act 2004 (Cth) **207**

agency **78**

aggressiveness **38**

Airbnb **19**, **64**, **162**

Airline GOL **248**

Airtasker **163**, **408**

Alibaba **166**

Allis, Janine **406**

Amazon **35**, **76**, **99**, **101**, **103**, **161**, **190**, **338**

Amazon Music **25**

American Standard Companies **31**

AMP **83**

Anand, Rohini **225**

ANZ **83**

AP Marketing Works **210**

Apple **11**, **25**, **63**, **106**, **214**, **339**, **385**

appraisal methods **221**

Ardent Leisure **372**

Ardern, Jacinda **186**, **348**

artefacts **38**

artificial intelligence (AI) **181**

Asch, Solomon **182**, **183**

Asokan, Ashwini **181**

assertiveness **56**

assumed similarity **280**

Atlassian **305**

attentional processes **282**

attention to detail **38**

attitudes **267**, **267–70**

- communication and **359**
- components of **267**
- consistent **268–9**
- cultural **33**
- job related **267**
- organisational culture and **32**
- positive **270**
- sustainability and **270**
- types **267–8**
- understanding **270**

attribution theory **278**

Australian Red Cross **173**

Australian Securities and Investments Commission (ASIC) **83**

Australian Securities Exchange (ASX) **386**

Australian Sports Anti-Doping Authority (ASADA) **89**

authority **149**, **149–54**, **425**

- historical view **149**
- line **149–51**, **150**
- power and **152–4**
- staff **150**, **150–1**

autocratic style of leadership **329–30**, **330**

autonomy **246**

avoidance **397**

awakening **270**

B

Baby Boomers **284**

balanced scorecard **391**, **391–2**

bargaining strategies **370–1**

bargaining zone **370**

basic corrective action **388**

behaviour **266**

ethical see **ethics**

group see **group behaviour**

moral **76**, **77**

organisational see **organisational behaviour (OB)**

behavioural approach **424**

behavioural component of attitude **267**

behavioural interview **216**

behaviourally anchored rating scales (BARS) **221**

behavioural theories of leadership **329**, **329–32**

Belle, Dean **110**

Belle, Gill **110**

benchmarking **137**

Better Cotton Initiative **393**

Better Cotton Standard System **393**

Bezos, Jeff **99**, **101**, **190**, **338**

biases **93–4**

big data **107**, **107**, **125–6**

Big Day Out **130**

Big Five model of personality **272**, **272**, **276**

Big Vision Consulting **231**

Blanchard, Ken **333**, **384**

body language **362**, **362**

Boeing **161**, **187**, **209**

Boost Juice **406**

Botin, Ana **364**

boundaryless career **228**

boundaryless organisation **162**, **162–3**, **167**

bounded rationality **96**, **96**

Bowie, Courtney **414**

Boyd, Shareena **23**

brainstorming **103**, **103–4**

Broderick, Elizabeth **327**

budgets **385**, **390**

built environment **54**

bullying **286–7**

business plans **129**–**35** see also **planning**

breadth of **130**

commitment concept of **131**, **131**–**2**

developing **131**–**2**

directional **130**

for entrepreneurial ventures **406**, **409**, **410**

flexibility of **131**, **135**

frequency of use **130**–**1**

full **410**

long-term **130**

ongoing **130**

operational **131**

short-term **130**

single-use plan **130**

specific **130**, **130**

standing plans **130**–**1**

strategic **130**

tactical **130**

time frames of **130**–**1**

types of **130**–**1**

C

‘calm waters’ metaphor of change **240**

capabilities **33**, **123**, **123**

capitalist economy **53**, **54**

career **228**, **228**

career development **228**

career planning **228**, **228**

cash controls **390**

Caterpillar **35**

centralisation **154**, **425**

Centrelink **49**

certainty **100**

chain of command **150**, **150**, **155**, **160**, **425**

Chandler, Alfred **156**

change

environmental **13**–**15**, **58**–**60**

organisational see **organisational change**

change agents **240**, **242**

channel **359**, **359**

Chapallaz, Phil **249**

Chapallaz, Trish **249**

Chapman, Jim **11**

charismatic leaders **338**, **338–9**

Chesky, Brian **162**

Choose Water **411**

Chouinard, Yvon **340**

Clark, David **348**

Clare, Rebecca **5**

classical approaches **425**

Clean Energy Council **237**

cloud computing **126**

coaching **192**, **196**

codes of ethics **78**, **78–80**

coercive power **153**

cognitive component of attitude **267**

cognitive dissonance **268**

cognitive dissonance theory **268**–**9**

collaboration **397**

coordination and **29**

collaborative environment **166**–**8**

collectivism **55**

command groups **180**

commitment, escalation of **96**

commitment concept **131**, **131**

Commonwealth Bank of Australia (CBA) **83**, **253**

communication **356**–**76**, **358**

active listening and **365**, **370**, **374**

barriers to **362**–**5**

body language **360**, **362**

channel of **359**

culture and **362**–**3**

customer service and **369**–**70**

decision implementation and **93**

decoding **360**

delegating authority and **165**–**6**

diversity and **194**

effective **359**

emotions and **363**

employee input and **370**

encoding **359**, **359**

ethical **371**

face-to-face **360**, **362**, **364**

feedback **360**, **365**

filtering **362**, **362**–**3**

gender and **364**

grapevine **361**, **361**–**2**

inclusive language **364**

information overload and **363**, **366**–**7**

innovation and **251**–**2**

jargon **363**

language and **363**, **366**

managerial characteristic **10**–**11**

media richness **360**

message **359**

multiple channels of **366**

national culture and **364**–**5**

negotiation and **370**–**1**

networked communication applications **366**–**7**

noise **360**

nonverbal **361**–**2**

open **167**

personal interaction **368**

process **358**, **358**–**60**

selective perception and **363**

social media and **125**

sustainability and **366**

technology and **54**, **164**, **336**–**7**

unheard and undermined **357**–**8**

written *versus* verbal **360**–**1**

communities of practice **369**, **369**

company **411**

compensation, employees **223**–**4**, **240**

compensation administration **223**

compensatory justice **74**

competence **343**

competitive intelligence **136**

competitive strategy **123**, **123–4**

competitors **57**

    gathering information about **136–7**

compressed work week **170**

compromise **397**

conceptual skills **10**

concurrent control **389**

conflict **395**

    management of **194**, **395–7**

    task **191**

    types of **396**

    views of **395**

conformity **182**

Confucian ethics **76**

consideration **331**

consistency **343**

consultants **240**, **243**

Contemporary Amperex Technology Co. Limited (CATL) **63**

contemporary approaches **427**

contingency approach **427**, **428**

contingency theories of leadership **332**–**7**

contingent workers, motivation of **314**

continuum of leader behaviour **330**

control/controlling **8**, **8**, **39**, **95**, **382**

- contemporary issues in **392**–**7**
- culture and **393**
- diversity and **386**
- entrepreneurs and **414**–**15**
- ethical issues **383**
- feedback **392**
- gender and **386**
- planning and **118**–**19**, **382**
- scope of **388**–**92**
- timing of **389**

control process **383**, **383–8**

core competencies **123**, **123**

corporate rituals **38**

corporate social responsibility (CSR) see **social responsibility**

corporate strategy **123**, **124**

corrective action **388**

counselling of employees **222**, **225**

Court of Arbitration for Sport (CAS) **89**

COVID-19 pandemic **13**, **48**

- affects international tourism **64**
- Ardern’s leadership style during **348**
- big data used **107**
- challenges **254**
- effort–reward imbalance **311**
- employment legislation, changes to **209**
- environment effects **49–50**
- hospital-grade decontamination cleaning service **64**
- individual behaviour **285**
- isolation packages **59**

leadership group **186**

making decisions **101**

manager(s), issues and challenges for **15**

moral behaviour **77**

online shopping services **99**

opportunity/opportunism **59**

planning in **136**

Ruby Princess is single-source infection **381–2**

telecommuting during **168**, **169**

value chains **29**

webconferencing **104**, **367**

creativity **106**, **109**, **249**

components of **249–50**

innovation and **249–51**

process **250–1**

credibility **19**, **343**

Crimes Act 1914 (Cth) **208**

critical incidents appraisal method **221**

cross-cultural leadership **342**

cross-functional teams **149**, **180**, **187**, **252**

cryptocurrencies **53**

cultural attitudes **33**

cultural characteristics **50**

cultural environment **55**

culture **55** see also **workforce diversity**

- codes of ethics and **78–9**
- communication and **359**, **364–5**
- controlling and **393**
- decision making and **105**
- dimensions of **55**
- ethical **78**
- leadership and **341–2**
- motivation and **312**
- organisational see **organisational culture**
- organisational structure and **166**
- personality traits and **276**

Cupcake Central **125**

customer departmentalisation **149**, **149**

customer-responsive cultures **13**, **40**

customers **56**

attracting and keeping **125**

communicating with **369**–**70**

connecting with **170**

importance of **13**

innovation and **253**

customer service **13**, **125**, **369**–**70**

CVS Beauty Mark **96**

CVS Pharmacy **96**

cyberloafing **394**

D

Dank, Stephen **89**–**90**

data

big **107**, **125**–**6**

visualisation tools **126**

Davis, Keith **361**

decentralisation **154**, **425**

decision(s)

- non-programmed **98**–**9**
- organisation level and **99**–**100**
- programmed **98**, **98**–**9**
- types of **98**–**100**

decisional roles **9**, **9**–**10**

decision criteria **91**, **91**–**3**

decision errors **93**–**5**

decision implementation **93**

decision making **90**

- alternatives in **91**–**3**, **96**, **106**
- approaches to **95**–**8**
- big data and **107**
- conditions for **100**
- contemporary issues in **105**–**7**
- COVID-19 pandemic **101**
- creativity and **106**, **109**
- criteria in **91**–**3**

culture and **105**

delegation and **164–6**

design thinking **106–7**

diversity in **102**

efficiency and **100**, **103**

errors/biases in **93–5**

group **101–4**

innovation and **253**

legislation and **208**

outcome of **93**

personality and **271–3**

problem identification in **90–1**, **93**, **106–7**

quantitative approach to **426**

rational model of **95–6**

relevant factors in **91**

sustainability and **93**

teams and **167**

weighting in **91–3**

decision-making process **90**, **90–5**

decoding **360**

delegating style **334**

delegation **164**

contingency factors in **165**

effective **164–6**

entrepreneurs and **416**

feedback controls for **166**

#DeleteUber movement **3**

Deliveroo **29**, **163**

Deloitte Australia **370**

Deming, W. Edwards **25**, **26**

Democratic Republic of Congo (DRC) **63**

democratic style of leadership **330**, **330**

demographic conditions **50–1**, **51**

departmentalisation **147**, **147–9**, **155**

customer **149**, **149**

functional **148**

geographic **149**

process **149**

product **148**

types of **148**

dependability **10**

design thinking **106**, **106**, **253**

diamond cutting process **28**

digital communication **359**

digital currencies **53**

digital technology see **information technology**

digital tools **126**

direction **300**

directional plans **130**

directive leader **335**

disability **52**

Disability Discrimination Act 1992 (Cth) **207**–**8**

discipline **222**, **425**

discrimination, employment **207**

disruptive innovations **407**

disseminator **9**–**10**

distributive bargaining **370**, **370**

distributive justice **308**

disturbance handler **9**

diversity see **workforce diversity**

diversity management **14**

divisional structure **160**

division of labour **423**, **425**, **428**

division of work **425**

downsizing **211**, **222**, **224**, **224–6**

dress codes **182**

Drucker, Peter **128**, **409**

dynamism **59**

dysfunctional conflicts **396**

E

early management **423**

economic conditions **53**, **239**, **311**

economic dimension of general environment **53**, **53**

effective communication **359**

effectiveness **7**, **7**, **12**

decision making and **103**

delegation and **164–6**

perception and **280**

personality and **276–7**

of teams **187–91**

efficiency **7**, **7**, **12**

decision making and **100**, **103–4**

production and **211**

work specialisation and **146–7**

effort norms **182**

electric vehicles (EVs) **63**

electronic meetings **104**

Elson, Sam **14**

emotion(s) **265**, **289**

emotional control **10**

emotional intelligence (EI) **273**, **273**

leadership and **342–3**

SIY program **265**

emotions and communication **363**

empathy **76**

employee(s) **57**

appraisal of **221**–**2**

assessment of **278**–**80**

behaviour of see **organisational behaviour (OB)**

benefits **224**

compensation **223**–**4**

competent, identifying and selecting **209**–**16**

counselling for **222**

decision making and **105**

delegation of authority and **164**–**6**

difficult, disciplining **399**

empowerment of **341**, **382**, **413**

evaluation of **39**, **250**

formalisation and **155**, **159**

future needs, determining **210**–**11**

health and safety responsibilities of **220**

labour markets **57**

managing of **8**, **14**

monitoring of **384**, **394**

non-managerial **5**

organisational changes and **238**, **245–8**

organisational connection **164**, **169–70**

organisational culture and **37–8**

pay levels **223–4**

performance appraisal process **221–2**

performance feedback **392**

ranking of **222**

recruitment of **212–13**, **226**, **412**

retention of **170**, **216**, **221–4**, **413**

selection process **412–13**

stress **245**, **245–8**

training of **217**, **217–19**

value chain management and **31–2**

employee assistance programs (EAPs) **248**

employee engagement **268**

employee input **370**

employee-managed careers **228**

employee-oriented leaders **331**, **332**

employee productivity **266**, **266–8**, **270**

employee recognition programs **315**, **315**

employee selection process **213**, **213–16**

- accept errors in **213–14**
- diversity and **226**
- entrepreneurial ventures and **411–12**
- interviews, effectiveness in **214–16**
- reject errors in **213–14**
- reliability of **214**, **214**
- tests, effectiveness of **214–16**
- validity of **214**, **214**
- work team members **191–2**

employee theft **394**, **394–5**

employee turnover **267**

employment planning **209**, **209–16**

employment practices **207**

empowerment **341**, **382**, **413**

encoding **359**, **359–60**

energy **300**

enterprise resource planning (ERP) **29**

entrepreneur(s) **9**, **12**, **406**, **407**

- conflict management **416**
- downturns and **415**
- evaluating potential ideas **408**
- grit development **418**
- growth management **415**
- harvesting **415**
- leading **413–14**
- motivating employees **413**
- necessity-based **407**
- opportunity-based **407**
- personal challenges for **415–16**
- personality characteristics **407**
- portfolio **407**, **408**
- recruitment **412**
- and self-employment **408**

serial **407**, **408**

social **407**, **408**

types of **407**

entrepreneurial opportunity **408**

sources of **409**

entrepreneurial thinking **404**, **406**

entrepreneurial ventures **404–20**, **406**, **407**

business plans for **408**, **409**, **410**

controlling **414–15**

diversity and **414**

employee empowerment in **413**

ethical challenges **412**

exiting from **414–15**

human resource issues in **412–13**

leadership and **413–14**

organisational design/structure of **411–12**

entrepreneurship **406**, **411**

environment

collaborative **168**

cultural **55** see also **culture**

general see **general environment**

specific **56**, **56–8**

working **220**

environmental change **13–15**, **58–9** see also **organisational change**

environmental complexity **59**

environmental scanning **136**

environmental uncertainty **59**

changes and **242**, **245**

external environment and **50–8**

planning and **131**, **135**

Equal Employment Opportunity (*Commonwealth Authorities*) *Act 1987* (Cth) **208**

Equal Opportunity for Women in the Workplace Amendment Act 2012 (Cth) **208**

equity **425**

equity theory **307**, **307–8**, **311**

escalation of commitment **96**

esprit de corps **425**

Essendon Football Club **88–9**

ethical communication **371**, **372**

ethical culture **78**

ethical dilemmas **74**–**7**

ethics **73**

- codes of ethics **78**, **78**–**9**
- Confucian ethics **76**
- control **394**
- cultural diversity and **76**, **78**
- decision making **76**, **99**
- diversity and **72**
- encouraging **78**–**80**
- factors influencing **74**–**8**
- formal protective mechanisms **79**–**80**
- justice view of **74**
- leadership **79**, **343**–**5**
- management **68**–**84**
- paybacks **315**
- reconciling **39**
- rights view of **73**–**4**, **82**

team relationships **191**

training and **79**

utilitarian view of **73**, **76**

ethnicity **51**

evaluating results **123**, **127–8**

evaluation of alternatives **92**

evidence-based management **428**, **428**

executive summary **410**

expectancy theory **309**, **309–10**

Expedia **4**

expert power **153**

external analysis **123**

external constraints on outcomes **60**

external organisational environment **48–64**, **50**, **427**

analysis of **123**, **136**

changing environments **58–60**

dynamic environments **59–60**, **158**, **238–42**

environmental uncertainty **59**, **59–60**

external environments **50**, **50–8**, **427**

general environment **50**, **50–6**

human resources management process and **207–8**

organisational change and **239–40**

organisational culture and **39**

specific environment **56**, **56–8**

structure and **156–8**

extinction **282**

F

Facebook **14**, **76**, **125**, **136**, **141**, **394**

Fair Work Act 2009 (Cth) **207**, **209**

Fair Work Amendment Act 2013 (Cth) **207**

Fayol, Henri **7**, **146**, **425**

feedback **360**

communication and **360–1**, **365**

effective **365**

employee performance **230**, **392–3**

goal-setting theory and **304–5**

feedback control **392**

feedforward control **389**

Festinger, Leon **268**

Fiedler, Fred **332**

Fielder contingency model **332**, **332–3**

Fighting Chance **291**

figurehead **9**

filtering **362**, **362–3**

financial controls **390–1**

financial globalisation **55**

flexible work arrangements **164**, **168–70**, **313**

flexible work hours **170**

flexitime **170**

Flynn, Daniel **419**

Folli Follie China **341**

follower–leader relationship **333–7**, **345**

follower readiness **333**

force field analysis **241**

forcing **397**

Ford Motor Company **426**

formal groups **180**

formalisation **155**, **159**

formal planning see **planning**

forming stage **180**, **180**

front-line managers **5**, **5–6**

full business plan **410**

functional conflicts **396**

functional departmentalisation **148**

functional strategies **123**, **124**

functional structure **159**

functions approach **7–8**

fundamental attribution error **279**, **279**

future orientation **56**

G

Gantt charts **132**

Garbutt, Brittany **311**

gender **52**

control and **386**

egalitarianism **56**

identity **52**

general administrative theory **425**, **428**

General Electric **35**, **207**, **369**

general environment **50**–**6**

diversity and **53**

economic dimension of **53**, **53**

global dimension of **54**, **54**–**5**, **166**

influence lithium battery and EV production **63**

physical dimension of **54**

political/legal dimension of **53**

sociocultural dimension of **50**, **50**

technological dimension of **52**

generational differences **283**–**4**

generational groups **283**–**4**

Generation X **284**

Generation Y **284**

Generation Z **284**

geographic departmentalisation **149**

gestures and emojis **359**

gig economy **163**

Glassdoor **4**

global dimension of general environment **54**, **54–5**

global economy **53**

codes of ethics and **78–9**

Global Leadership and Organizational Behavior Effectiveness, (GLOBE) Research Program **55**, **55–6**, **342**

global teams **193–4**

goals **4–5**, **8**, **126**

diversity **132**

expectancy theory and **309**

financial **127**

human resources plan and **209–10**

performance compared with **386–7**

planning and **118**, **122**, **126–9**

real **127**

stated **127**

strategic **127**

types of **127**

well-written, characteristics of **129**

goal setting **127**–**9**, **139**

management by objectives (MBO) **128**, **248**

means-ends chain **128**, **128**

steps in **129**

traditional goal setting **127**, **127**–**8**

goal-setting theory **304**, **304**–**5**, **310**

Gobbo, Nicola **69**–**70**

GoDaddy **189**

Goods and Services Tax (GST) **239**

Google **63**, **253**, **265**

government spending **54**

GPS technology **107**

grapevine **361**

graphic rating scales **221**

Gravity Payments **320**

Green Teams **185**

Gridlock **237**–**8**

group(s) **178**–**98**, **180** see also **team(s)**

cohesiveness **184**, **184**–**5**

developmental stages **180**–**1**

examples **180**

formal **180**

informal **180**

roles in **182**

status **182**, **182**–**3**, **193**

teams and **185**–**6**

group behaviour **181**–**5**, **192**–**4**, **266**

conformity **182**, **193**

group size and **184**

norms **182**, **182**

group cohesiveness **184**, **184**–**5**

group decision making **101**–**4**

group-order ranking **222**

groupthink **102**, **103**, **193**

H

Hackman, J. Richard **306**

Haier Group **150**

halo effect **280**

harvesting **415**

Hawthorne Studies **270**, **424**, **428**

health, occupational **220**, **220**, **245**–**7**, **286**–**7**, **367** see also **stress**

Heinz **161**, **400**

Hersey, Paul **333**–**4**

Herzberg, Frederick **302**–**4**, **312**

heuristics **93**, **93**

Hickson, Sandy **11**

hierarchy of needs theory **301**, **301**, **312**

Hill, Linda **18**

hiring see **employee selection process**

history of management theory **423**–**8**

Hofstede, Geert **55**, **276**

holacracy (organisational system) **145**–**6**

Holiday Home Helpers (HHH)
communicating by board **376**
confidentiality **84**
controlling employees **401**
decision-making style **111**
effective learning **259**
entrepreneur ventures **420**
general environment **64**
leadership and trust **349**
motivating employees **19**
operations system in **45**
organisational design **174**
personality/performance, hire for **292**
planning **141**
rewards **321**
strategically using HRM **232**
team behaviour **198**
Holland, John **275–6**
Horton, Todd **168**

House, Robert **55**, **335**

Hsieh, Tony **145**

humane orientation **56**

human relations view of conflict **395**

human resource inventory **210**

human resources management (HRM) **204**–**32**, **206**

- compensation **223**–**4**
- contemporary issues in **224**–**8**
- COVID-19 pandemic leaves **209**
- downsizing **211**–**12**, **222**, **224**–**6**
- employee retention **221**–**4**, **412**–**13**
- employee selection see **employee selection process**
- entrepreneurial ventures **411**–**12**
- green **224**
- Indigenous communities **231**
- innovation and **252**
- legislation affecting **207**–**8**, **220**
- needs assessment **210**–**11**
- orientation **217**

performance management **221**–**3**

process **206**–**8**

recruitment **212**–**13**

training **217**–**19**

hygiene factors **303**, **303**–**4**

Hyundai **92**, **135**

I

IBM **55**, **121**, **361**, **368**, **391**

idea champions **253**

immediate corrective action **388**

inclusion **14**

inclusive language **364**

inclusive leadership **344**

Indigenous communities **231**, **405**–**6**

Indigenous Psychological Services (IPS) **414**

Indigital **405**–**6**

Inditex fashion group **44**

individual decision making **101**–**3**

individual ranking **222**

Industrial Revolution **423**, **428**

informal groups **180**

information, control of **390**

informational roles **9**, **9**–**10**

information overload **363**, **366**

information sharing **167**

information technology

- challenges with **367**–**8**
- changes in **239**, **427**
- communication and **54**, **366**–**7**
- controls and **390**, **394**–**5**
- decision making and **98**, **104**
- flexible work arrangements and **168**–**9**
- Indigenous communities **405**–**6**
- structure and **157**

in-group collectivism **55**

initiating structure **331**

initiative **425**

innovation **249**

creativity and **249**–**51**

disruptive **407**

diversity and **252**

encouraging **251**–**3**

fostering **251**–**3**

human resource variables and **253**

organisational culture and **37**, **252**

strategic planning and **125**

structural variables **251**–**2**

sustaining **407**

systems model of **251**

variables affecting **251**–**2**

Instagram **125**, **394**

integrative bargaining **371**

integrity **343**

Intel **197**

interactionist view of conflict **395**

interest groups **57**

intergroup development **243**

internal analysis **123**

internal constraints on outcomes **60**

internal forces **239**–**40**

international forces **54**–**5**

International Organization for Standardization **35**

Internet of Things (IoT) **126**, **197**

interpersonal demands **247**

interpersonal qualities **281**

interpersonal roles **9**, **9**–**10**

interpersonal skills **10**, **365**–**6**

interviews **214**–**16**

intrapreneurship **406**, **407**

intuition **97**

intuitive decision making **97**

Iomega Corporation **29**

iPhone **25**

Isaacs, Emma **273**

ISO 9001 certification **35**

J

Jacobs, Thomas **231**

Jade, Mikaela **405**

Jago, Arthur **334**

Janis, Irving **102**

jargon **363**

job analysis **210**

job characteristics model (JCM) **306**, **306–7**, **311**

job description **210**

job design **306**

job enrichment **307**

job involvement **267**

JobKeeper payment **311**

job orientation **217**

job performance **214–15**

job satisfaction **267**, **267**, **270**, **302–3**

job sharing **168**, **170**

job specialisation **423**, **428**

job specification **210**

Johnson & Johnson **35**

Jones, Sally **231**

Jung, Carl **271**

justice view of ethics **74**

K

Kahn, Ronni **299–300**

Kalanick, Travis **3**

KangoGift **168**

karoshi **245**

Katz, Robert L. **10**

Kersh, Nicole **239**

Khosrowshahi, Dara **3**

Kim, Minjee **168**

knowledge management **167**, **368–9**, **369**

L

labour markets **57**, **239**

laissez-faire style of leadership **330**, **330**

Lamb, Andrew **34**

language **38**, **363**, **366**

    inclusive **364**

large business **12**

Lawyer X **69**–**70**

lay-off survivor sickness **225**, **225**

leader(s) **8**–**10**, **328**

    behaviour of **329**–**32**, **347**

    contemporary issues for **341**–**3**

    traits of **328**–**9**, **343**

leader–follower relationship **333**–**8**, **344**–**5**

leader–member exchange (LMX) theory **337**, **337**

leader–member relations **332**

leader–participation model **334**

leadership **328**

behavioural theories of **329**, **329–32**
contemporary views of **337–41**
contingency theories of **332–7**
culture and **341–2**
during COVID-19 pandemic **186**
diversity and **344**
in entrepreneurial ventures **413–14**
ethical **79**
inclusive **344**
Jacinda Ardern's style **348**
leading with flying colours **348**
relevance of **345**
sustainability and **339**
of teams **5**, **161**, **188**, **340**
top-down **327–8**
trait theories of **328**, **328–9**
trust as essence of **343–5**
value chain management and **31**
leading **8**, **8**, **39**, **95**, **413–14**

lean management **36**

learning **18**, **281**, **281–3**, **368**

learning organisation **166–8**, **167**, **369**

learning theories, behaviour and **281–3**

least-preferred co-worker (LPC) questionnaire **332**

legal dimension of general environment **53**

legitimate power **153**

levels of management **5–6**, **11**

Lewin, Kurt **240–2**, **329–30**

liaison **9**

line authority **150**, **150–1**

LinkedIn **137**, **394**

listening, active **365**, **370**, **374**

Livingstone, Juliette **357**

Livingstone, Nicole **153**

load charts **132**, **132–3**

locus of control **274**, **276**

Longcroft, James **411**

long-term plans **130**

lower-level managers **10**, **11**

decision making and **99**, **105**, **154**

planning and **131**–**2**

loyalty **343**

loyalty norms **182**

M

Ma, Jack **166**

Machiavelli, Niccolo **274**

Machiavellianism **274**

Mad Street Den Systems **181**

management **6**

factors reshaping and redefining **13**–**15**

functions of **7**–**8**, **11**, **95**

productivity **26**

roles of **9**–**10**

scientific **6**

study of **15**

universality of concepts **11**–**13**
management by objectives (MBO) **128**, **248**
management by walking around (MBWA) **384**
management information systems (MIS) **390**, **390**
management levels **5**–**6**
management theory **60**
history of **423**–**8**
manager(s) **2**–**19**, **5**
characteristics of **10**–**11**
COVID-19 pandemic issues **15**
diversity and **14**
versus entrepreneurs **407**
functions of **7**–**8**, **11**, **95**
versus non-managerial employees **5**
roles of **9**–**10**
skills required of **10**–**11**
social media as tool for **14**, **125**, **137**
titles of **5**–**6**
managerial characteristics **10**–**11**

managerial competencies **10**–**11**

managerial roles **9**, **11**, **18**

managing actions **10**, **12**

Manning, Autumn **18**

Mansfield Regional Produce Store **110**

margin **28**

market-based-pay concept **314**

Marwood, Tim **205**

Maslow, Abraham **301**, **312**, **424**

mass production **157**

material symbols **38**

Mates in Construction (MIC) **258**

matrix structure **160**, **160**–**1**

MBO **128**, **248**

McClelland, David **302**

McDonald's **25**, **118**, **127**, **147**, **389**

McGregor, Douglas **302**, **424**

means-ends chain **128**

measuring **383**–**6**

mechanistic organisation **155**, **156**

media richness **360**

medium-sized business **12**

meetings, electronic **103**

mental health **52**, **287** see also **stress**

mental maps **243**

mentoring **226**, **226**

message **359**

Microsoft **63**, **179**, **389**

middle managers **5**–**6**, **6**, **12**

Mintzberg, Henry **9**–**10**

mission **122**, **129**

mission statement **122**

Miya Patient Flow system **375**

modular organisation **163**

monitor **9**–**10**, **12**, **252**

monitoring of employees **384**, **394**

moral hazard **77**

moral identity **75**, **76**

COVID-19 pandemic **77**

Morrell, Jane **414**

Morrison, David **327–8**

MOSE project **117–18**

motivation **298–321**, **300**, **309**

contingent workers **314**

culture and **305**, **312**

diversity and **313**

economic downturns and **311**

economies of work and **148**

effort–performance relationship **309**

elements of **300**

employee recognition programs **315**, **315**

entrepreneurs and **413**

equity theory and **307–8**, **311**, **312**

expectancy theory **309**, **309**

goal-setting theory and **304**, **304–5**

hierarchy of needs theory **300**, **301**, **312**

integrating theories of **309–11**

intrinsic factors of **303**, **312**

intrinsic task **249**, **312**

job characteristics model (JCM) and **306**, **306–7**, **311**

job design and **147**, **306**, **306–7**

job enrichment and **307**

management issues and **311–16**

pay-for-performance programs and **315**, **315–16**

performance–reward relationship and **309**

professionals and **314**

reinforcement theory and **311**

rewards and **299–300**

rewards–goal relationship **310**

self-efficacy and **305**, **305**

skills training as **314**

sustainability and **306**

theories of **300–11**

Theory X **302**

Theory Y **302**

three-needs theory **302**, **302**

traditional need theories **300**–**4**, **310**

two-factor theory **302**, **302**–**4**

work specialisation and **147**

motivation-hygiene theory **302**–**4**

motivation to manage **11**

motivators **302**–**4**, **303**, **318**

motor reproduction processes **282**

Munsterberg, Hugo **211**, **424**

Myers-Briggs Type Indicator (MBTI) **271**

mystery shoppers **222**

N

Nahum, Bertin **333**

narcissism **76**

National Australia Bank (NAB) **83**

national borders, management concepts and **12**

National Cabinet **186**

national culture see **culture**

National Energy Grid **236**, **237**

natural environment **54**

necessity-based entrepreneurs **407**

need(s)

for achievement (nAch) **302**, **302**, **310**, **312**

for affiliation (nAff) **302**, **302**

hierarchy of **301**, **312**

for power (nPow) **302**, **302**

negative feedback **392**

negative reinforcement **282**

negotiation **370**, **370–1**

bargaining strategies **370–1**

effective **371**

negotiator **9**

NetBeans **18**

Netflix **59**, **314**, **407**

networked communication applications **366–7**

network organisation **162**

NexGeneration **231**

Nice Coffee Co. **11**

Nichols, Ray **389**

Nissan Motors **4**, **127**

noise **360**

nominal group technique **103**, **104**

non-managerial employees **5**

non-programmed decisions **99**, **99**

norming stage **181**

norms **182**, **182**, **193**

not-for-profit organisations **12**

NSW Health team **381**–**2**

NSW Rural Fire Brigade **188**

O

objectives see **goals**

observation **383**

occupational acumen **10**

occupational health and safety **220**, **220**, **245**–**7**, **286**–**7**, **367** see also **stress**

Ohio State University studies **330**

Oldham, Greg R. **306**

omnipotent view of management **60**

on-demand workforce **163**

open-mindedness **10**

openness **343**

operant conditioning **281**, **281**

operational plans **130**

operations management **22**–**45**, **24**

- contemporary issues in **33**–**6**
- lean management **36**
- manufacturing organisations **24**–**5**
- organisation's strategy **25**–**7**
- productivity enhancement **25**
- role of technology in **33**–**4**
- service organisations **24**–**5**

operations system **58**

opportunities **123**, **123**

opportunity-based entrepreneurs **407**

Opportunity International **409**

oral reports **384**–**5**

order **425**

O’Reilly, Jordan **291**

O’Reilly, Laura **291**

organic organisation **156**, **158**, **251**

organisation(s) **4**

- capabilities of **123**, **123**
- changing environments of **58**–**9**
- characteristics of **4**–**5**
- diversity climate **53**
- external analysis of **123**, **136**
- founders of **37**
- inputs **5**, **58**
- internal analysis of **123**
- learning in **166**–**8**, **167**
- management levels in **5**–**6**, **10**–**11**
- mechanistic **155**, **158**
- mission of **122**, **129**

operations systems of **5**

organic **156**, **156**, **251**

outputs of **5**, **58**

profit orientation of **12**

resources of **123**, **123**

service *versus* manufacturing **24–5**

size of **11**, **156–7**, **165**

strategies of **122–3**, **239**

strengths of **123**

systems theory of **5**, **58**

weaknesses of **122**, **122**

organisational barriers **32**

organisational behaviour (OB) **264–92**, **266**, **424**, **428**

attitudes and **267–70**

consistent **268–9**, **274**

contemporary issues in **283–7**

COVID-19 pandemic **285**

diversity and **281**

emotional intelligence **265**

emotions and **273**

focus of **266**

goals of **266–7**

group behaviour and **266**

individual behaviour **264–92**

learning theories and **281–3**

motivation and **300–4**

perception and **277–80**

personality and **271–5**

shaping **282**, **282**

organisational change **236–59**, **238**

barriers to **244–5**

‘calm waters’ metaphor **240**

catalyst of **240**

categories of **238–9**

change agents **240**

coercion in **244**

communication during **244–5**

constant **242**

consultants for **240**, **243**

cooptation of **244–5**

diversity and **240**

economic changes and **239**

education for **244**

employee reaction to **245–8**

external forces affecting **239**

facilitation of **244–5**

force field analysis framework for **241**

internal forces affecting **239**

labour markets and **239**

management of **238–43**

manipulation in **244–5**

marketplace and **239**

negotiation **244–5**

participation in **244–5**

planned changes **242**

process for **240**

reasons for **239**

resistance to **243**
strategy **239**
stress and **245–8**
support during **244–5**
technology and **238**
uncertainty and **243**
unsuccessful **243–5**
'white-water rapids' metaphor **241–2**, **242**
workforce composition **240**
organisational citizenship behaviour (OCB) **267**
organisational commitment **268**
organisational culture **37**, **37–9**
applicants and **226**
and attitudes **32**
codes of ethics in **78–9**
delegation and **165**
dimensions of **37–8**
diversity and **40**
employees and **37–8**

environments and **39**–**40**

ethics and **74**–**5**, **269**

importance of **37**–**8**

innovation and **251**–**2**

learning organisations and **169**

managerial decisions affected by **39**–**40**

origin **37**–**8**

professional behaviour and **287**

strong cultures **39**

structure and **156**

understanding of **42**

value chain management support to **32**

organisational design **144**–**74**, **146**

challenges of **164**–**70**

common **158**–**70**

contemporary **161**–**3**

elements of **146**–**55**

entrepreneurial ventures and **411**–**12**

in learning organisations **166**

traditional **158**–**61**

organisational efficiency **7**, **100**

organisational level

authority and **149**

goal setting and **127**

planning and **131**

problem solving and **99**–**100**, **154**

organisational life cycle **239**

organisational processes **30**, **30**–**1**

organisational restructuring **170**

organisational stories **38**

organisational structure **144**–**74**

bureaucratic **144**, **155**

changes to **238**

conflict and **395**–**7**

contingency variables in **153**, **156**–**8**

culture and **37**–**8**, **157**

diversity and **163**

divisional structure **160**

entrepreneurial ventures **411**–**12**

environment and **158**

ethical dilemmas and **74**–**8**

functional structure **159**

global differences and **166**

innovation and **251**–**2**

matrix structure **160**, **160**–**1**

planning and **135**

project structure **162**

simple structure **159**

size and **157**

strategy and **156**–**7**

stress and **246**–**7**

sustainability and **159**

team structures **161**, **161**

technology and **157**

organisational vision **167**–**8**

organisation development (OD) **242** see also **organisational change**

intergroup development in **243**

process consultation in **243**

survey feedback in **242**

team building in **243**

organisation orientation **217**

organising **8**, **8**, **38**, **95**, **146**

Organization of Petroleum Exporting Countries (OPEC) **56**

orientation **217**, **226**

Ortega, Amancio **44**

outcomes

constraints on **60**

of decision making **93**

orientation **38**, **60**

OzHarvest **299–300**

P

Page, Ailsa **210**

paired comparison of employees **222**

participating style **334**

participative leader **335**

partnership **411**

Patagonia **340**

path-goal theory **335**, **335–7**

pay-for-performance programs **315**, **315–16**

pay gap **52**

pay levels **223–4**

people orientation **37**

PepsiCo **187**

perception **277**, **277–80**

- assumed similarity **280**
- attribution theory **278**, **278–9**
- creativity and **250**
- employee assessments **278–80**
- expectancy theory of motivation and **309**
- fundamental attribution error **279**, **279**
- halo effect **280**
- influences on **277**
- personal characteristics and **279**, **280**

self-serving bias **279**

stereotyping **280**

understanding **280**

perceptual shortcuts **280**

performance

appraisal process **221**–**2**, **310**–**11**

conflict and **395**–**7**

correction of **388**

employee, feedback on **392**–**3**

goals compared with **386**

performance management system **221**, **221**–**2**

performance orientation **55**

performance-simulation tests **214**

performing stage **181**

persistence **300**

personality **271**, **271**–**7**

Big Five Model of **76**, **272**, **276**

cultural differences **276**

dominant **276**

emotional intelligence **273**, **273**

entrepreneurial traits and **407**

job matching **275**–**6**

managerial understanding of **276**–**7**

Myers-Briggs Type Indicator (MBTI) **271**

proactive **407**

tests **276**

work-related behaviours and **271**

personality-job-fit theory **275**, **276**

personal observation **383**

personal orientation **10**

PERT networks **133**, **133**–**5**

Peters, Winston **348**

Pfizer Consumer Healthcare **30**

physical dimension of general environment **54**

PhysioWest **5**

pioneering **270**

planning **8**, **39**, **95**, **117**–**41**

approaches to **131**–**2**

contemporary issues in **135–6**

contingency factors of **131**

control linked with **119**, **382**

in COVID-19 pandemic **136**

crisis situations **135–6**

criticisms of **119–20**

diversity and **132**

dynamic environments and **135**

entrepreneurial ventures **408**

environmental uncertainty and **131**, **135**

formal **119–20**

formal planning department **131**

informal **118**

organisational level and **131**

organisational performance and **120**

for quality **35**

reasons for **118–19**

strategic **120** see also **strategic management**

for success **141**

sustainability and **120**

tools for **132**–**5**

to turn back tide **117**–**18**

plans **126** see also **business plans**

policy **99**

political dimension of general environment **53**

political skills **10**

Porter, Christian **209**

portfolio entrepreneur **407**, **408**

position power **333**

positive attitudes **270**

positive feedback **392**

positive reinforcement **281**–**2**

power **152**, **152**–**3**, **172**

authority and **149**–**53**

personality and **273**

position **333**

types of **150**–**1**

power distance **55**, **105**

Poynting, Nathaniel **11**

Price, Dan **320**

PricewaterhouseCoopers (PwC) **286**

primary activities **27**

principles of management **425**, **428**

Privacy Act 1988 (Cth) **208**

Privacy Amendment (*Enhancing Privacy Protection*) *Act 2012* (Cth) **208**

proactive personality **407**

problem(s) **90**, **90–1**, **98–100**

- design thinking and **99**
- ethics and **73**, **99**
- organisational level and **99**
- solving see **decision making**
- unstructured problems **98**, **99**

problem-solving teams **187**

procedural justice **74**, **308**, **308**

procedure **99**

process conflict **396**

process consultation **243**

process departmentalisation **149**

process production **157**

process technological changes **52**

product departmentalisation **148**

production-oriented leaders **331**

product technological changes **52**

professionalism **15**

profit orientation **12**

programmed decisions **98**, **98**

project structures **162**

punishment **282**

Q

quality practices **125**

quantitative approach **426**, **428**

R

race **51**

Racial Discrimination Act 1975 (Cth) **208**

Radio Frequency Identification Technology **44**

range of variation **386**, **386**

ranking employees **222**

rational decision making **95**, **95–6**

readiness **333**

real goals **127**

realistic job preview (RJP) **216**, **216**, **248**

Reconciliation Action Plan **231**

recruitment **210**, **212**, **212–13**

- entrepreneurial ventures and **412**
- sources for **212**, **226**

RedBalloon **390**

referent **308**

referent power **153**

regulation **54**

regulators **57**

reinforcement **281**, **311**

reject errors in hiring **213**

relationship conflict **396**

relationship orientation **334**

remuneration **425**

renewable energy **237**–**8**

resistance to change **245**

resource allocator **9**

resource availability **58**, **251**

resources **123**, **123**

responsibility **149**, **149**–**53**, **425**

    corporate social see **social responsibility**

    historical view of **149**

retention processes **282**

reward(s) **281**–**3**, **308**

reward power **153**

reward programs **315**–**16**

Rheingans Digital Enabler **313**

rights view of ethics **73**–**4**

ringisei **105**

risk **100**

risk taking **37**, **105**, **274**

rituals, corporate **38**

Ritz-Carlton **385**

role **182**

role ambiguity **246**

role conflicts **246**

role demands **246**

Role Excellence (RolEx) function **179**

role overload **246**

roles approach **9**–**10**

Royal Flying Doctor Service **127**

Ruby Princess **381**–**2**

rule **99**

rules of thumb **93**

Rusty Windmill, The **23**–**4**

S

safety, occupational **220**, **220**, **245–6**, **286–7**

SAP **103**

satisficing **96**, **96**

Saumweber, Philipp **250**

scalar chain **425**

scanning external environment **62**

Schmidt, Warren **330**

scientific management **6**, **211**, **425**, **428**

Sea Forest **14**

Search Inside Yourself (SIY) **265**

security issues

    communication **366–7**

    control **383**

selection process see **employee selection process**

selective perception **280**, **363**

self-development **95**

self-efficacy **305**

self-employment **408**

self-esteem (SE) **274**

self-managed teams **180**

self-managed work teams **187**, **187**, **225**

self-monitoring **274**

self-serving bias **95**, **279**, **279**

selling style **334**

serial entrepreneurs **407**, **408**

Seven and i Holdings **393**

Sex Discrimination Act 1984 (Cth) **207–8**, **227**

sexual harassment **227**, **227–8**

sexual orientation **52**

shaping behaviour **282**, **282–3**

sharing economy **58**

Shewring, Fiona **280**

short-term plans **130**

Sidekicker **163**

Simmons, Caroline **205**

Simon, Herbert A. **97**

simple structure **159**

Simson, Naomi **315**, **390**

single-use plan **130**

situational approach **427**, **428**

situational interview **215**

situational leadership theory (SLT) **333**, **333–4**

Six Sigma **35**

skill-based pay **224**

Skinner, B. F. **282**

Skype **104**, **168**

small business **11**, **159**

Smith, Adam **423**, **425**

Smith, Gary **357**

SMS **227**

SNY Pty Ltd **357**

social categorisation **189**

social entrepreneurs **407**, **408**, **414**

socialist economy **53**, **53**

social learning theory **281**, **281–2**

social loafing **184**, **191**, **194**

socially responsible **70**, **71**

socially responsive **70**, **71**–**2**

social media **14**, **125**, **137**

social obligations **70**, **71**

social responsibility **70**, **70**–**2**

arguments for and against **71**–**2**

diversity and **72**

managing for **70**–**80**

societal issues **55**

sociocultural dimension of general environment **50**, **50**

Sodexo **225**

Softbank **4**

Soft Landing **70**

SOHO China **121**

Solar **4** RVs **249**

solar power **237**–**8**

sole proprietorship **411**

Sony **35**

span of control **153**, **153**

specific environment **56**, **56**–**8**

specific plans **130**, **130**

spokesperson **9**, **12**

stability **38**

stability of tenure of personnel **425**

staff authority **150**, **150**

stakeholders **14**, **56**, **56–8**

standards see **goals**

standing plans **130**

Stanek, Roman **18**

stated goals **127**

statistical reports **383–4**

status **182**, **182–3**, **193–4**

stereotyping **280**, **280**

Stone, Florence **18**

stories, organisational **39**

storming stage **180**

strategic goals **127**

strategic HRM **207**

strategic management **121**, **121–6**

evaluating results of **127**

external analysis of **123**

importance of **121**

internal analysis of **123**

process **122–4**

strategic management process **122**

strategic options **124**

strategic partners **57**

strategic plans **124**, **130**

strategic weapons **125–6**

strategies

change introduced by **239–40**

competitive **123**, **123**

corporate **123**, **123**

formulating **123**

functional **123**, **123**

identifying **122**

implementing **123**

structure and **156**

types of **124**

strengths **123**

stress **245**, **245**–**8**

causes **246**–**7**

entrepreneurs and **415**–**16**

management **256**

personal factors **247**

reduction of **247**–**8**

symptoms **246**

stressors **246**

strong culture **39**, **39**, **40**

structured problems **98**, **98**

subordination of individual interests **425**

Subway **25**

Sundrop Farms **250**

Superannuation Guarantee (*Administration*) *Act 1992* (Cth) **208**

suppliers **56**, **56**–**7**

support activities **27**

supportive leader **335**

survey feedback **242**, **242**

survivor syndrome **225**

sustainability **14**

- attitudes and **270**
- communication and **366**
- controlling and **391**
- decision making and **93**
- green HRM and **224**
- green teams and **185**
- importance of **14–15**
- leadership and **339**
- managing for **14–15**
- managing value chain **37**
- motivating employees for **306**
- organisational structure and **159**
- people and communities **409**
- planning and **120**
- self-sustaining agriculture **250**
- sharing economy **58**

short-term gains by **72**

Sustainability Leadership Institute **339**

sustaining innovations **407**

SWOT analysis **123**

symbolic view of management **60**

systems theory **427**, **428**

T

tactical plans **130**

Tan, Chade-Meng **265**

Tan, Yuki **341**

Tannenbaum, Robert **330**

task complexity **165**, **194**

task conflict **396**

task demands **246**

task groups **180**

task orientation **10**, **334**

task structure **332**

Taylor, Frederick Winslow **6**, **211**, **425**

team(s) **5**, **185**, **185–94** see also **group(s)**

abilities within **188**

behaviour shaping **192**

cohesiveness of **181**, **194**

common purpose of **191**, **194**

conflict management **191**, **194**

COVID-19 pandemic **186**

cross-functional **149**, **180**, **187**, **252**, **343**, **414**

diversity on **189**, **190**, **281**

effectiveness at Microsoft **179**

effectiveness of **187–91**

entrepreneurial ventures and **413**

global **193–4**

goals of **191**

versus groups **185–6**

versus individuals **194**

leadership **5**, **161**, **188**, **340**, **414**

management of **187–94**

member preferences for **190**

member selection **191**–**2**

organisational design and **161**–**3**, **167**

performance evaluation system **188**–**9**, **192**

personality influences on **189**–**90**

problem-solving **187**

resources for **188**

roles **190**

self-managed **187**, **187**, **414**

size of **190**

skills required for **189**–**90**

trust within **188**–**9**

types of **186**–**7**

virtual **187**, **194**

team building **243**

team effectiveness **187**–**91**

composition factors **189**–**90**, **193**

contextual factors **188**–**9**

global teams **193**–**4**

structure and **193**–**4**

team processes and **191**, **194**

work design and **191**

team leaders **5**, **5**–**6**, **188**, **340**, **414**

team orientation **37**

team spirit **425**

team structures **161**, **161**

technical knowledge **165**

technical skills **10**

technological advancements **52**, **54**

change and **238**–**9**

controls and **391**, **392**–**3**

data availability and **107**

digital see **information technology**

technological dimension of general environment **52**

telecommuting **168**, **168**–**9**

telling style **334**

Tesla **63**

text messages **359**

Thai, Sheryl **125**

Thankyou Water **419**

theft, employee **394**, **394–5**

Theory X **302**

Theory Y **302**

Thomas, Deborah **372**

threats **123**, **123**

3D printing technology **33–4**

3m **35**

three-needs theory **302**, **302**

360-degree appraisal **221**

Thunberg, Greta **328**

Timboon Fine Ice Cream **204**, **205**

timing of control **388–9**

titles of personnel **5**

top-down leadership **327**

top managers **5**, **5–6**, **10**, **11**, **127**

- decision making and **99**, **105**
- planning and **131–2**

total quality management (TQM) **25**, **426**, **428**

Toyota Motor Company **116**

traditional functions **10**

traditional goal setting **127**

traditional view of conflict **395**

training **217**, **217–19**

- diversity **226**
- ethics **79**
- evaluation of **219**
- innovation and **253**
- methods of **219–20**
- MIC program **258**
- sexual harassment **227–8**
- team members **191**
- workplace health and safety **220**

trait theories of leadership **328**, **328**

transactional leaders **338**

transformational leaders **338**

transformation process **24**, **25**

triple bottom line (TBL) approach **392**

trust **343**, **343–5**

turnover **267**

two-factor theory **302**, **302–4**

Type A personality **247**

Type B personality **247**

U

Uber **3–4**, **163**, **194**, **408**

Uber Eats **4**, **29**, **163**, **194**

uncertainty **100**

- avoidance **55**, **105**
- environmental see **environmental uncertainty**
- planning and **118**

unconscious reasoning **97**

unethical behaviour **74–5**

unfair employment practices **207–8**

Unilever **140**

unions **57**

unit production **157**

unity of command **151**, **161**, **425**

unity of direction **425**

University of Iowa studies **329**

University of Michigan studies **331**

unstructured problems **98**, **99**

US Environmental Protection Agency **72**

utilitarian view of ethics **73**

V

value **26**, **39**, **55**

value activities **27**

value chain **27**, **27–8**

    COVID-19 pandemic **29**

    managing quality in **34–5**

value chain management **28**

    barriers, organisational **32**

coordination and collaboration **29**

cultural attitudes **32**–**3**

employees, flexibility by **31**–**2**

goals of **28**–**9**

leadership and **31**

obstacles to **32**–**3**

organisational processes **30**–**1**

peoples **33**

required capabilities **33**

success requirements for **29**–**32**

technology investment **29**–**30**

variable pay **224**

verbal communications **360**–**1**

verbal intonation **362**, **362**

Victoria Police **69**–**70**

videoconference **104**

virtual currencies **53**

virtual organisation **162**, **162**

virtual teams **187**, **194**

Visa **315**

visionary leadership **338**–**40**, **339**

voice mail **13**

Volkswagen **72**

Voyages Indigenous Tourism Australia **369**

Vroom, Victor **309**, **334**

W

wages **425**

diversity and **52**

pay levels **52**, **223**–**4**

Waked, Tino **194**

Walmart **30**

Walt Disney Company **4**

water scarcity **140**

weaknesses **123**

webconferencing **104**, **169**, **367**

Weber, Max **146**, **425**

Weiss, Natalia **248**

Welch, Jack **162**

wellness programs **248**

Westerman, Tracy **414**

Westpac **83**

whistleblowers **79**

White, Tristan **413**

‘white-water rapids’ metaphor of change **241**, **241–2**

Whiting, Susan **242**

wireless communication technologies **366**

Woodward, Joan **157**

workforce diversity **52** see also **culture**; **gender**

- communication and **364**
- control and **386**
- decision making and **102**
- employee selection and **226**
- ethical behaviour and **78**
- and inclusion pays off **72**
- innovation and **253**

management of **52**, **226**

motivation and **313**

organisational culture and **39**, **226**

perceptual shortcuts and **280**

planning for **132**

sourcing **163**

stereotyping and **280**

teams and **190**

work group see **group(s)**

Work Health and Safety Act 2011 (Cth) **208**, **220**

Workplace Gender Equality Act **386**

workplace health and safety **220**, **220**, **245**–**6**, **286**–**7**, **367** see also **stress**

workplace misbehaviour **267**

work specialisation **146**, **146**–**7**, **155**

work team see **team(s)**

work unit orientation **217**

World Business Council for Sustainable Development (2005) **14**

World Health Organization (WHO) **49**

Worthington, Rebecca **231**

written communications **360**

written essay appraisal method **221**

written reports **385**

written tests **214**

X

Xerox Corporation **187**

Y

Yetton, Phillip **334**

YouEarned **18**

Youth Strike **4** Climate **328**

YouTube **125**, **327**

Z

Zappos **145**

Zara **44**

Zhang Ruimin **150**

Zhang Xin **121**

Zilok **58**

Zoom **49**, **104**

Contents

1. Front matter
    A. Copyright
    B. Brief contents
    C. Detailed contents
    D. Preface
    E. Content matrix: Chapters and cases
    F. About the authors

2. Chapter 1 Managers and management
    A. Who are managers, and where do they work?
        1. What four characteristics do all organisations share?
        2. How are managers different from non-managerial employees?
        3. What titles do managers have?
        4. Classic concepts in today's organisations: Management: Is there one best way to do a job?

    B. What is management?
    C. What do managers do?
        1. What are the four management functions?
        2. What are management roles?
        3. What characteristics do managers need?
        4. Is the manager's job universal?
        5. A question of ethics: Being set up to fail?

D. What factors are reshaping and redefining management?
1. Why are customers important to the manager's job?
2. Why is innovation important to the manager's job?
3. Why are diversity and inclusion important to the manager's job?
4. Why are social media tools important to the manager's job?
5. Why is sustainability important to the manager's job?
6. Why is the COVID-19 pandemic important to the manager's job?

E. Why study management?
F. Review
1. Chapter 1 summary
2. Discussion questions
3. Management skills spotlight: Becoming politically adept
4. Experiential exercise
5. Case application: Learning to 'walk the walk'
6. Running case: Holiday home helpers: Motivated to make a difference
7. Endnotes

3. Chapter 2 How organisations operate
A. What is operations management?
1. Why is operations management important?
2. How does operations management enhance productivity?

3. How does operations management contribute to an organisation's strategy?
4. Classic concepts in today's organisations: Increasing productivity by enhancing quality

B. What is the value chain?

C. What is value chain management?

1. What are the goals of value chain management?
2. Rethinking management in a global crisis: New 'rules of the game' change the value of chains
3. What are the requirements for successful value chain management?
4. What are the obstacles to value chain management?

D. What contemporary issues do organisations face in operations management?

1. The role of technology in operations management
2. Managing quality in the value chain
3. Using lean management
4. Managing for sustainability: Managing the value chain from cradle to grave

E. What is organisational culture, and why is it important?

1. A question of ethics: Values and value

F. How does organisational culture affect managers?

1. Managing for diversity and inclusion: The paradox of diversity

G. Review
1. Chapter 2 summary
2. Discussion questions
3. Management skills spotlight: Understanding culture
4. Experiential exercise
5. Case application: Fast fashion
Running case: Holiday home helpers: Taking the
6. hassle out of hosting
7. Endnotes

4. Chapter 3 The external organisational environment
A. What is the external environment of an organisation?
1. What is the general environment of an organisation?
Managing for diversity and inclusion: Does your
2. organisation need a diversity climate change?
3. What is the specific environment of an organisation?
Managing for sustainability: Connecting up to do more
4. with less

B. How does the external environment affect managers?
1. A question of ethics: Opportunity, or opportunism?
Classic concepts in today's organisations: How much
2. can managers really affect outcomes?

C. Review
1. Chapter 3 summary
2. Discussion questions

Management skills spotlight: Scanning the external
3. environment
4. Experiential exercise
5. Case application: Electric vehicles
Running case: Holiday home helpers: Change on the
6. horizon
7. Endnotes

Chapter 4 Managing social responsibility and ethical
5. behaviour
A. How do organisations define their social responsibilities?
B. Should organisations be socially responsible?
Managing for diversity and inclusion: How support for
1. diversity and inclusion pays off
Managing for sustainability: Using dirty deeds to look
2. clean and green

C. How can managers identify the ethical thing to do?
1. Ethical perspectives

D. What factors influence ethical and unethical behaviour?
Classic concepts in today's organisations: Moral
1. behaviour stems from moral identity
2. A question of ethics: Fuelling feelings
Rethinking management in a global crisis: Moral
3. behaviour stems from moral identity

E. How can managers encourage ethical behaviour?

F. **Review**

1. **Chapter 4 summary**
2. **Discussion questions**
3. **Management skills spotlight: Doing the right thing**
4. **Experiential exercise**
5. **Case application: Banking on getting away with it**
   Running case: Holiday home helpers: Keeping it
6. **confidential**
7. **Endnotes**

6. **Chapter 5 Making decisions**

A. **How do managers make decisions?**

1. **What defines a decision problem?**
2. **What is relevant in the decision-making process?**
   How does the decision maker weight the criteria and
3. **analyse alternatives?**
4. **What determines the best choice?**
5. **What happens in decision implementation?**
6. **What is the last step in the decision process?**
   What common errors are committed in the decision-
7. **making process?**
   Managing for sustainability: Deciding how to 'go
8. **green'**

B. **What are the three approaches managers can use to make decisions?**

1. **What is the rational model of decision making?**

A question of ethics: Building believability with the
2. **beauty mark**
3. **What is bounded rationality?**
Classic concepts in today's organisations: When faced
4. **with too many choices, we satisfice!**
What role does intuition play in managerial decision
5. **making?**

What types of decisions and decision-making conditions
C. **do managers face?**
1. **How do problems differ?**
2. **How does a manager make programmed decisions?**
How do non-programmed decisions differ from
3. **programmed decisions?**
How are problems, types of decisions and
4. **organisational level integrated?**
5. **What decision-making conditions do managers face?**
Rethinking management in a global crisis: Making
6. **decisions when uncertainty is the *only* certainty**

D. **How do groups make decisions?**
What are the advantages and disadvantages of group
1. **decision making?**
Managing for diversity and inclusion: The value of
2. **diversity in decision making**
3. **When are groups most effective?**
4. **How can you improve group decision making?**

What contemporary decision-making issues do managers
E. face?
How does national culture affect managers' decision
1. making?
Why are creativity and design thinking important in
2. decision making?

F. Review
1. Chapter 5 summary
2. Discussion questions
Management skills spotlight: Being a creative decision
3. maker
4. Experiential exercise
5. Case application: Going greener
Running case: Holiday home helpers: Developing a
6. decision-making style
7. Endnotes

7. Chapter 6 Planning
A. What is planning, and why do managers need to plan?
1. Why should managers formally plan?
What are some criticisms of formal planning, and how
2. should managers respond?
Managing for sustainability: Planning for a more
3. sustainable future
Does formal planning improve organisational
4. performance?

B. What do managers need to know about strategic management?
   1. What is strategic management?
   2. What are the steps in the strategic management process?
   3. What strategic weapons do managers have?

C. How do managers set goals and develop plans?
   1. What types of goals do organisations have, and how do they set those goals?
   2. Classic concepts in today's organisations: All you need to know about MBO!
   3. What types of plans do managers use, and how do they develop those plans?
   4. Managing for diversity and inclusion: Carrot or stick?
   5. What are some popular planning tools?

D. What contemporary planning issues do managers face?
   1. How can managers plan effectively in dynamic environments and for crisis situations?
   2. How can managers use environmental scanning?
   3. Rethinking management in a global crisis: Planning in a pandemic
   4. How can managers use benchmarking?
   5. A question of ethics: Is there enough time to act ethically?

E. Review

1. Chapter 6 summary
2. Discussion questions
3. Management skills spotlight: Being a good goal setter
4. Experiential exercise
5. Case application: Less is more
   Running case: Holiday home helpers: Planning for
6. success
7. Endnotes

8. Chapter 7 Organisational structure and design
   A. What are the six key elements in organisational design?
      1. What is work specialisation?
      2. What is departmentalisation?
      3. What are authority and responsibility?
      4. What is span of control?
      5. How do centralisation and decentralisation differ?
         A question of ethics: Deciding what, and when, to
         a. disclose

      6. What is formalisation?

      How is a mechanistic organisation different from an
   B. organic organisation?
   C. What contingency factors affect structural choice?
      1. How does strategy affect structure?
      2. How does size affect structure?
      3. How does culture influence structure?
      4. How does technology affect structure?

5. Classic concepts in today's organisations: How does technology affect organisation design?
6. How does the environment affect structure?

D. What are some common organisational designs?
1. What traditional organisational designs can managers use?
2. Managing for sustainability: Structure and sustainability
3. What contemporary organisational designs can managers use?
4. Managing for diversity and inclusion: Sourcing diversity

E. What are today's organisational design challenges?
1. How do you keep employees connected?
2. How do you delegate effectively?
3. How do global differences affect organisational structure?
4. How do you build a learning organisation?
5. How can managers design efficient and effective flexible work arrangements?
6. Rethinking management in a global crisis: How working from home *really* works

F. Review
1. Chapter 7 summary
2. Discussion questions

3. Management skills spotlight: Increasing your power
4. Experiential exercise
Case application: Structural renewal at the Australian
5. Red Cross
Running case: Holiday home helpers: Designed for
6. success?
7. Endnotes

9. Chapter 8 Managing work groups and teams
What is a group, and what stages of development do
A. groups go through?
1. What is a group?
2. What are the stages of group development?

B. What are the main concepts of group behaviour?
1. What are roles?
2. How do norms and conformity affect group behaviour?
3. What is status, and why is it important?
Classic concepts in today's organisations: Have you
4. ever been pressured by a group to conform?
5. Does group size affect group behaviour?
6. Are cohesive groups more effective?
7. Managing for sustainability: Green teams

C. How are groups turned into effective teams?
1. Are work groups and work teams the same thing?
Rethinking management in a global crisis: Teaming up
2. as a leadership group

3. What are the different types of work teams?
4. What makes a team effective?
Managing for diversity and inclusion: The challenge of
5. managing diverse work teams
6. A question of ethics: Working out where loyalties lie
7. How does work design affect team effectiveness?
8. How can a manager shape team behaviour?

What current issues do managers face in managing
D. teams?
1. What's involved with managing global teams?
2. When are teams not the answer?

E. Review
1. Chapter 8 summary
2. Discussion questions
Management skills spotlight: Developing your
3. coaching skills
4. Experiential exercise
5. Case application: Intel inside . . . and far away
Running case: Holiday home helpers: Team up? Or go
6. it alone?
7. Endnotes

10. Chapter 9 Managing human resources
What is the human resource management process, and
A. what influences it?
1. What is the legal environment of HRM?

Rethinking management in a global crisis: Legislating
2. pandemic conditions

How do managers identify and select competent
B. employees?
1. What is employment planning?
Classic concepts in today's organisations:
2. Scientifically studying the workplace
3. How do managers reduce their workforce?
4. How do organisations recruit employees?
5. How do managers select job applicants?

How are employees provided with needed skills and
C. knowledge?
How are new employees introduced to the
1. organisation?

How do organisations provide a safe working
D. environment?
1. A question of ethics: Being responsible

How do organisations retain competent, high-performing
E. employees?
1. What is a performance management system?
What happens if an employee's performance isn't up
2. to par?
3. How are employees compensated?
4. Managing for sustainability: Green HRM

F. What contemporary HRM issues do managers face?
1. How can managers manage downsizing?
2. How can workforce diversity be managed?
3. Managing for diversity and inclusion: Mentoring
4. What is sexual harassment?
5. What is career development?

G. Review
1. Chapter 9 summary
2. Discussion questions
3. Management skills spotlight: Providing good feedback
4. Experiential exercise
Case application: Facilitating change or forcing
5. conformity?
Running case: Holiday home helpers: Strategically
6. using HRM for success
7. Endnotes

11. Chapter 10 Managing change and innovation
A. What is change, and how do managers deal with it?
1. Why do organisations need to change?
2. Who initiates organisational change?
3. How does organisational change happen?
Classic concepts in today's organisations: Lewin's
ideas have helped us better understand
a. organisational change

B. Reasons why change fails

1. What are some techniques for overcoming barriers to organisational change?

C. What reaction do employees have to organisational change?
   1. What is stress?
   2. What are the symptoms of stress?
   3. What causes stress?
   4. How can stress be reduced?
   5. A question of ethics: Suffering in silence

D. How can managers encourage innovation in an organisation?
   1. How are creativity and innovation related?
   2. How can organisations stimulate creativity?
   3. Managing for sustainability: Self-sustaining agriculture
   4. What's involved in turning creativity into innovation?
   5. How can a manager foster innovation?
   6. Managing for diversity and inclusion: Listening to everyone
   7. How does design thinking influence innovation?
   8. Rethinking management in a global crisis: New challenges, new insights, new capabilities

E. Review
   1. Chapter 10 summary
   2. Discussion questions
   3. Management skills spotlight: Stress management

4. Experiential exercise
5. Case application: Saving mates
   Running case: Holiday home helpers: Learning how to
6. learn more effectively
7. Endnotes

12. Chapter 11 Understanding individual behaviour
    What are the focus and goals of organisational
A. behaviour?
    1. What is the focus of OB?
    2. What are the goals of organisational behaviour?

B. What role do attitudes play in job performance?
    1. What are the three components of an attitude?
       Do individuals' attitudes and behaviours need to be
    2. consistent?
    3. What is cognitive dissonance theory?
       How can an understanding of attitudes help managers
    4. be more effective?
       Managing for sustainability: Translating good
    5. intentions into action

C. What do managers need to know about personality?
    1. How can we best describe personality?
       Can personality traits predict practical work-related
    2. behaviours?
    3. A question of ethics: Faking feelings
    4. How do we match personalities and jobs?

5. **Do personality attributes differ across cultures?**
   How can an understanding of personality help
6. **managers be more effective?**

D. **What is perception, and what factors influence it?**

1. **What influences perception?**
   How can an understanding of perception help
2. **managers be more effective?**
   Managing for diversity and inclusion: Being a more
3. **inclusive person**

E. **How do learning theories explain behaviour?**

1. **What is operant conditioning?**
2. **What is social learning theory?**
   Classic concepts in today's organisations: Want to
3. **know how to shape someone's behaviour?**
4. **How can managers shape behaviour?**
   How can an understanding of learning help managers
5. **be more effective?**

F. **What contemporary OB issues do managers face?**

1. **How do generational differences affect the workplace?**
   Rethinking management in a global crisis: Getting to
2. **know you . . .**
   How do ability, disability and mental health affect the
3. **workplace?**
4. **How do managers deal with bullying in the workplace?**

G. Review
1. Chapter 11 summary
2. Discussion questions
Management skills spotlight: Understanding employee
3. emotions
4. Experiential exercise
5. Case application: A fighting chance at a fair go
Running case: Holiday home helpers: Hire for
6. personality or performance?
7. Endnotes

13. Chapter 12 Motivating and rewarding employees
A. What is motivation?
B. What do the early theories of motivation say?
1. What is Maslow's hierarchy of needs theory?
2. What is McClelland's three-needs theory?
3. What are McGregor's Theory X and Theory Y?
4. What is Herzberg's two-factor theory?
Classic concepts in today's organisations: How can
5. jobs be designed to make workers happy?

C. How do the contemporary theories explain motivation?
1. What is goal-setting theory?
Managing for sustainability: Inspiring more sustainable
2. actions
3. How does job design influence motivation?
4. What is equity theory?
5. How does expectancy theory explain motivation?

How can we integrate contemporary motivation
6. theories?

D. What contemporary motivation issues do managers face?
How can managers motivate employees during difficult
1. economic times?
Rethinking management in a global crisis: Effort–
2. reward imbalance
3. How does country culture affect motivation efforts?
How can managers motivate unique groups of
4. workers?
Managing for diversity and inclusion: Equal rewards
5. for equal work?
How can managers design appropriate rewards
6. programs?
7. A question of ethics: Promises and paybacks

E. Review
1. Chapter 12 summary
2. Discussion questions
3. Management skills spotlight: Being a good motivator
4. Experiential exercise
5. Case application: One for the money . . .
Running case: Holiday home helpers: Recognising that
6. rewards take many forms
7. Endnotes

14. Chapter 13 Leadership and trust

A. Who are leaders, and what is leadership?
B. What do early leadership theories tell us about leadership?
   1. What traits do leaders have?
   2. What behaviours do leaders exhibit?
   3. Classic concepts in today's organisations: People–task: Both are important to leaders

C. What do the contingency theories of leadership tell us?
   1. What was the first comprehensive contingency model?
   2. How do followers' willingness and ability influence leaders?
   3. How participative should a leader be?
   4. How do leaders help followers?

D. What is leadership like today?
   1. What do the four contemporary views of leadership tell us?
   2. Managing for sustainability: Leading sustainability

E. What issues do today's leaders face?
F. Why is trust the essence of leadership?
   1. A question of ethics: Follow the money
   2. Managing for diversity and inclusion: Inclusive leadership

G. Review
   1. Chapter 13 summary

2. Discussion questions
3. Management skills spotlight: Being a good leader
4. Experiential exercise
5. Case application: Jacinda Ardern: Leading with flying colours
6. Running case: Holiday home helpers: Leadership and trust

Chapter 14 Managing Organisational and Interpersonal
15. Communication

A. How do managers communicate effectively?
1. How does the communication process work?
2. Are written communications more effective than verbal ones?
3. Is the grapevine an effective way to communicate?
4. How do non-verbal cues affect communication?
5. Classic concepts in today's organisations: The grapevine: An important source of information
6. What barriers keep communication from being effective, and how can they be overcome?
7. Managing for diversity and inclusion: Using inclusive language
8. How can managers overcome communication barriers?
9. Managing for sustainability: Talking up sustainability

B. How is technology affecting managerial communication?

Rethinking management in a global crisis: Meeting
1. online . . . all the time!

C. What communication issues do managers face today?
How do we manage communication in a networked
1. world?
How does knowledge management affect
2. communication?
3. A question of ethics: Who says?
What role does communication play in customer
4. service?
5. How can we get employee input?
How should managers communicate when
6. negotiating?
Why should managers be concerned with
7. communicating ethically?

D. Review
1. Chapter 14 summary
2. Discussion questions
3. Management skills spotlight: Being a good listener
4. Experiential exercise
5. Case application: Better flow leads to better care
Running case: Holiday home helpers: Communicating
6. by the board
7. Endnotes

16. Chapter 15 Controlling work and organisational processes

A. **What is control, and why is it important?**
   1. **Why is control important?**

B. **What takes place as managers control?**
   1. **What is ‘measuring’?**
   2. **Managing for diversity and inclusion: Using controls to increase diversity**
   3. **How do managers compare actual performance to planned goals?**
   4. **What managerial action can be taken?**

C. **What should managers control?**
   1. **When does control take place?**
   2. **In what areas might managers need controls?**
   3. **Managing for sustainability: The triple bottom line of sustainability**

D. **What contemporary control issues do managers confront?**
   1. **Using feedback to control employee performance**
   2. **Do controls need to be adjusted for cultural differences?**
   3. **What challenges do managers face in controlling the workplace?**
   4. **A question of ethics: Workplace surveillance**
   5. **Controlling workplace conflict**

E. **Review**

1. Chapter 15 summary
2. Discussion questions
   Management skills spotlight: Disciplining difficult
3. employees
4. Experiential exercise
5. Case application: In the can
   Running case: Holiday home helpers: Controlling in
6. consultation with employees
7. Endnotes

17. Chapter 16 Managing entrepreneurial ventures
   A. What is entrepreneurship?
      1. Who engages in entrepreneurship?
      2. Is entrepreneurship different from self-employment?

   B. What planning do entrepreneurs need to do?
      Classic concepts in today's organisations: Sources of
      1. entrepreneurial opportunities
      Managing for sustainability: Sustaining people and
      2. communities
      3. What's in a full business plan?

   C. What's involved in organising an entrepreneurial venture?
      What are the legal forms of organisation for
      1. entrepreneurial ventures?
      What type of organisational structure should
      2. entrepreneurial ventures use?

What human resource management (HRM) issues do
3. entrepreneurs face?
4. A question of ethics: Being real about success

D. What's involved in leading an entrepreneurial venture?
1. How can entrepreneurs motivate employees?
Managing for diversity and inclusion: Using diversity
2. to support diversity
3. How can entrepreneurs be leaders?

E. What's involved in controlling entrepreneurial ventures?
1. How is growth managed?
2. How are downturns managed?
3. What's involved with exiting the venture?

Why is it important to think about managing personal
F. challenges as an entrepreneur?
G. Review
1. Chapter 16 summary
2. Discussion questions
3. Management skills spotlight: Developing grit
4. Experiential exercise
5. Case application: Creatively making a better world
Running case: Holiday home helpers: A new
6. (ad)venture
7. Endnotes

18. Appendix A brief history of management's roots

A. **Early management (3000 BCE–mid-1800s)**
B. **Behavioural approach (late 1700s–present)**
C. **Classical approaches (1911–1947)**
D. **Quantitative approach (1940s–1950s)**
E. **Contemporary approaches (1960s–present)**
F. **Choosing between management approaches**
G. **Endnotes**

19. **Glossary**
20. **Index**

Landmarks

1. **Brief contents**
2. **Frontmatter**
3. **Start of Content**
4. **backmatter**
5. **Glossary**

1. **i**
2. **ii**
3. **iii**
4. **iv**
5. **v**
6. **vi**
7. **vii**
8. **viii**

9. **ix**
10. **x**
11. **xi**
12. **xii**
13. **xiii**
14. **xiv**
15. **xv**
16. **xvi**
17. **xvii**
18. **xviii**
19. **xix**
20. **xx**
21. **xxi**
22. **xxii**
23. **xxiii**
24. **xxiv**
25. **xxv**
26. **xxvi**
27. **xxvii**
28. **2**
29. **3**
30. **4**
31. **5**
32. **6**
33. **7**
34. **8**
35. **9**
36. **10**

37. **11**
38. **12**
39. **13**
40. **14**
41. **15**
42. **16**
43. **17**
44. **18**
45. **19**
46. **20**
47. **21**
48. **22**
49. **23**
50. **24**
51. **25**
52. **26**
53. **27**
54. **28**
55. **29**
56. **30**
57. **31**
58. **32**
59. **33**
60. **34**
61. **35**
62. **36**
63. **37**
64. **38**

65. **39**
66. **40**
67. **41**
68. **42**
69. **43**
70. **44**
71. **45**
72. **46**
73. **47**
74. **48**
75. **49**
76. **50**
77. **51**
78. **52**
79. **53**
80. **54**
81. **55**
82. **56**
83. **57**
84. **58**
85. **59**
86. **60**
87. **61**
88. **62**
89. **63**
90. **64**
91. **65**
92. **66**

93. **67**
94. **68**
95. **69**
96. **70**
97. **71**
98. **72**
99. **73**
100. **74**
101. **75**
102. **76**
103. **77**
104. **78**
105. **79**
106. **80**
107. **81**
108. **82**
109. **83**
110. **84**
111. **85**
112. **86**
113. **87**
114. **88**
115. **89**
116. **90**
117. **91**
118. **92**
119. **93**
120. **94**

121. **95**
122. **96**
123. **97**
124. **98**
125. **99**
126. **100**
127. **101**
128. **102**
129. **103**
130. **104**
131. **105**
132. **106**
133. **107**
134. **108**
135. **109**
136. **110**
137. **111**
138. **112**
139. **113**
140. **114**
141. **115**
142. **116**
143. **117**
144. **118**
145. **119**
146. **120**
147. **121**
148. **122**

149. **123**
150. **124**
151. **125**
152. **126**
153. **127**
154. **128**
155. **129**
156. **130**
157. **131**
158. **132**
159. **133**
160. **134**
161. **135**
162. **136**
163. **137**
164. **138**
165. **139**
166. **140**
167. **141**
168. **142**
169. **143**
170. **144**
171. **145**
172. **146**
173. **147**
174. **148**
175. **149**
176. **150**

177. **151**
178. **152**
179. **153**
180. **154**
181. **155**
182. **156**
183. **157**
184. **158**
185. **159**
186. **160**
187. **161**
188. **162**
189. **163**
190. **164**
191. **165**
192. **166**
193. **167**
194. **168**
195. **169**
196. **170**
197. **171**
198. **172**
199. **173**
200. **174**
201. **175**
202. **176**
203. **177**
204. **178**

205. **179**
206. **180**
207. **181**
208. **182**
209. **183**
210. **184**
211. **185**
212. **186**
213. **187**
214. **188**
215. **189**
216. **190**
217. **191**
218. **192**
219. **193**
220. **194**
221. **195**
222. **196**
223. **197**
224. **198**
225. **199**
226. **200**
227. **201**
228. **202**
229. **203**
230. **204**
231. **205**
232. **206**

233. **207**
234. **208**
235. **209**
236. **210**
237. **211**
238. **212**
239. **213**
240. **214**
241. **215**
242. **216**
243. **217**
244. **218**
245. **219**
246. **220**
247. **221**
248. **222**
249. **223**
250. **224**
251. **225**
252. **226**
253. **227**
254. **228**
255. **229**
256. **230**
257. **231**
258. **232**
259. **233**
260. **234**

261. **235**
262. **236**
263. **237**
264. **238**
265. **239**
266. **240**
267. **241**
268. **242**
269. **243**
270. **244**
271. **245**
272. **246**
273. **247**
274. **248**
275. **249**
276. **250**
277. **251**
278. **252**
279. **253**
280. **254**
281. **255**
282. **256**
283. **257**
284. **258**
285. **259**
286. **260**
287. **261**
288. **262**

289. **263**
290. **264**
291. **265**
292. **266**
293. **267**
294. **268**
295. **269**
296. **270**
297. **271**
298. **272**
299. **273**
300. **274**
301. **275**
302. **276**
303. **277**
304. **278**
305. **279**
306. **280**
307. **281**
308. **282**
309. **283**
310. **284**
311. **285**
312. **286**
313. **287**
314. **288**
315. **289**
316. **290**

317. **291**
318. **292**
319. **293**
320. **294**
321. **295**
322. **296**
323. **297**
324. **298**
325. **299**
326. **300**
327. **301**
328. **302**
329. **303**
330. **304**
331. **305**
332. **306**
333. **307**
334. **308**
335. **309**
336. **310**
337. **311**
338. **312**
339. **313**
340. **314**
341. **315**
342. **316**
343. **317**
344. **318**

345. **319**
346. **320**
347. **321**
348. **322**
349. **323**
350. **324**
351. **325**
352. **326**
353. **327**
354. **328**
355. **329**
356. **330**
357. **331**
358. **332**
359. **333**
360. **334**
361. **335**
362. **336**
363. **337**
364. **338**
365. **339**
366. **340**
367. **341**
368. **342**
369. **343**
370. **344**
371. **345**
372. **346**

373. **347**
374. **348**
375. **349**
376. **350**
377. **351**
378. **352**
379. **353**
380. **354**
381. **355**
382. **356**
383. **357**
384. **358**
385. **359**
386. **360**
387. **361**
388. **362**
389. **363**
390. **364**
391. **365**
392. **366**
393. **367**
394. **368**
395. **369**
396. **370**
397. **371**
398. **372**
399. **373**
400. **374**

401. **375**
402. **376**
403. **377**
404. **378**
405. **379**
406. **380**
407. **381**
408. **382**
409. **383**
410. **384**
411. **385**
412. **386**
413. **387**
414. **388**
415. **389**
416. **390**
417. **391**
418. **392**
419. **393**
420. **394**
421. **395**
422. **396**
423. **397**
424. **398**
425. **399**
426. **400**
427. **401**
428. **402**

429. **403**
430. **404**
431. **405**
432. **406**
433. **407**
434. **408**
435. **409**
436. **410**
437. **411**
438. **412**
439. **413**
440. **414**
441. **415**
442. **416**
443. **417**
444. **418**
445. **419**
446. **420**
447. **421**
448. **422**
449. **423**
450. **424**
451. **425**
452. **426**
453. **427**
454. **428**
455. **429**
456. **430**

457. **431**
458. **432**
459. **433**
460. **434**
461. **435**
462. **436**
463. **437**
464. **438**
465. **439**
466. **440**
467. **441**
468. **442**
469. **443**
470. **444**
471. **445**
472. **446**
473. **447**
474. **448**
475. **449**
476. **450**
477. **451**
478. **452**
479. **453**
480. **454**

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description

Long description